

LESLIE

Industrial Insurance

Economics

A. M.

1915



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INDUSTRIAL INSURANCE

BY

HAROLD DEAM LESLIE

A. B. Ohio State University, 1914

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THESIS

Submitted in Partial Fulfillment of the Requirements for the

Degree of

MASTER OF ARTS

IN ECONOMICS

IN

THE GRADUATE SCHOOL

OF THE

UNIVERSITY OF ILLINOIS

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UNIVERSITY OF ILLINOIS  
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June 1, 1915.

I HEREBY RECOMMEND THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

Harold Deam Leslie.  
ENTITLED Industrial Insurance.

BE ACCEPTED AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

DEGREE OF Master of Arts.

*H. L. Rietz*

In Charge of Major Work

*David K. Rieley*  
Head of Department

Recommendation concurred in:

Committee

on

Final Examination

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## PREFACE.

The main purposes of the present paper are ---

*First:* To define industrial insurance; to show its limitations and conditions; and to point out its distinctive features and essential characteristics.

*Second:* To trace briefly the history of industrial insurance in England, Germany and the United States; to trace the growth and development of the business in the last sixty years, keeping in mind the aims and ideals of the founders of the business and the lines of activity for which it was designed.

*Third:* To study the companies in operation at the present time, with respect to their form and methods of operation, giving special attention to the company organizations; to the forms and provisions of policies; to the rates of premium payments with attendant benefits; and to the methods of valuation for the purpose of determining the reserves of the industrial policies.

*Fourth:* To examine the experience of the companies in the past and also the present, with special reference to the matters of mortality, lapses, and legislation, including taxation.

*Fifth:* To study the economic and social value of industrial insurance to the people of the United States; if, in truth, there is any real value in this institution in relation to public welfare.

*Sixth:* To give a brief summary of the various points of controversy

Aug 10 Aug 15



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PERIODICALS CONTAINING ARTICLES ON INDUSTRIAL

INSURANCE.

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## CHAPTER I

## INTRODUCTION

\* \* \* \*

It seems desirable at the start of our study that we define the term "industrial insurance" and give its conditions and limitations as used in this thesis. We assume in this thesis a knowledge of the principles and methods of "ordinary" life insurance. With this as our starting point, we shall limit our field for discussion in several very important aspects.

*First.* We shall limit ourselves to that branch of life insurance known as "old line" or legal reserve life insurance. This form has a certain definite premium, determined by the scientific methods and upon the basis of an accepted table of mortality and a specified rate of interest. These premiums are paid at regular intervals, are "level" and are contrasted with the various other forms known as "step-rate", stipulated premium, assessment premium, "natural" premium and other forms. The term legal reserve also implies that because of the level premiums, there accrues during the early years of the policy, an excess of the level premium over the natural premium, this excess being called the reserve; this reserve is set aside annually and is used to meet the costs of insurance in the later years of the policy when the natural premium exceeds the level and the deficit must be made up.

Considering the business operations of legal reserve life insurance companies, there are two principal branches of life insurance

- (1) Ordinary Life Insurance.
- (2) Industrial Life Insurance.

Under ordinary insurance it is usually assumed that the insured is financial-



ly able to pay annual, semi-annual or quarterly premiums of policies of one thousand dollars and multiples thereof. It is the purpose of industrial insurance to meet the needs of a class of persons for whom ordinary insurance is impracticable.

*Second.* We shall limit ourselves to industrial legal reserve life insurance. This form is designed for the wage-earning classes and their dependents, employed in the manufacturing institutions of the large cities of the United States.

*Third.* We shall limit ourselves in still another direction. There has been a common misuse of the term "industrial insurance". With the increasing agitation for social reform it has been applied to workmen's compensations and benefits for industrial accidents and diseases, until by some writers, "industrial insurance" is used for measures of social relief of any sort, quite apart from its original definition.

Mr. J. F. Dryden said that Professor C. R. Henderson of the University of Chicago was the first American writer to broadly apply the term "industrial insurance" to outside forms and thereby corrupt the meaning and intent of the term, as it was intended by its originators. He used it in the broadest possible sense in his book on "Industrial Insurance" in 1909, including under this term ---

- (1) Local relief societies,
- (2) Benefits of trade unions,
- (3) Fraternal societies,
- (4) Employer's liability,
- (5) Pension schemes and many other forms.

This situation is much to be regretted as criticisms of industrial insurance in general is often thought to apply to the legal reserve forms as





well.

Industrial insurance is fundamentally *family* insurance. It is insurance for every member of the family. This was the idea in the minds of the founders of this form of insurance. Ordinary insurance is generally insurance carried on the life of the father. Very early the importance and desirability of insuring the chief source of support and maintenance to the family was seen. Clearly his dependent ones had an insurable interest in him. But this form only covered part of the risk of the family and only reached a part of their needs. Why not insure the mother as well? Was she not the important factor in the home life and support of the children? Gradually this was also seen to be a legitimate and necessary form of insurance. Still later the necessity and advantage to the family of small income was seen, of insuring the children for small amounts, as well. Clearly the family of small income was very materially affected by the death of any one of the family. The family budget and savings was small enough at best and the expenses necessitated by the death of a child was sufficient to consume the entire savings and put the family in debt. So that gradually public opinion came to regard children's insurance also, as a very desirable and important institution of security and stability for the home. Thus, the fundamental idea of industrial insurance is well expressed by calling it *family* insurance.

Further, it is family insurance at retail. The workman's family of small income could not afford to pay for the large amounts of insurance usual under the ordinary plan. So a system of small insurances had to be devised, if insurance was to be made practical for this class of people. Also the incomes of the laboring class are almost entirely upon the weekly wage basis. Wages are paid weekly or bi-monthly. Under the present high





prices, it requires practically the entire income of the average working family to secure the necessities of life. The usual means of subsistence is by the "hand to mouth" method. So a plan of insurance was needed such that premiums could be paid weekly. Any other form than this would fail in all probability to meet the needs and requirements of the working class. This has been demonstrated abundantly in the early experience of industrial insurance companies in this and other countries, when insurance on the fortnightly and monthly plan was tried. Of course, insurance at retail means that retail prices must be paid. Thus we have the second important principle of industrial insurance. It is insurance at *retail*.

Industrial insurance is an institution whose purpose is to provide safe, small insurances on scientific principles for the great mass of the people. Its broad principles are easy to understand; but the application of them to existing conditions involves difficulties and intricate details which tax the resources of the greatest leaders in the business.

The primary object of industrial insurance is to provide for the burial expenses of the insured on the grounds of common decency and self-respect as a safe-guard against a pauper burial.

Due to the economic and social necessities of the problem, industrial insurance, then, has certain marked peculiarities and characteristics which make it a distinct branch of life insurance. It does not differ in scientific principles from ordinary life insurance, but it applies to a different class of risks. Its broad underlying characteristics may be said to be ---

- (1) The benefits of industrial insurance policies are based upon premium units of five cents instead of being based upon benefit units of one thousand dollars as in ordinary insurance.

This is, of course, due to the fact that five cents, and multiples



thereof, are much more convenient to collect by the agents and it is much easier to grade the benefits to fit the premiums. It is simply a method of eliminating much office detail. Also it takes advantage of the psychological idea of the smallness of five cents or ten cents rather than some odd amount. There is also another reason; if one hundred dollars, say, is taken as the amount of the face of the policy, and, according to the age under consideration, the exact amount of premium by the actuarial formulae is 5.425 cents weekly, then necessarily either five cents or six cents must be collected, because of the limitations of our currency. Six cents would be clearly an injustice and five cents would not be sufficient, so that an endless amount of confusion and difficulty would result from this plan.

- (2) Premiums on industrial insurance policies are payable weekly, on the first Monday of each week. This, of course, is due to the economic necessities of the situation.
- (3) Premiums on industrial insurance are payable weekly to collectors who call at the homes of the insured, instead of being sent annually semi-annually or quarterly by mail as is done in ordinary insurance. With this plan of collection various questions arise which are treated under appropriate topics.
- (4) Industrial insurance deals primarily with the working classes. These classes live almost exclusively in large cities, having their own peculiar standards of living, ideals and customs. These conditions of life naturally cause a distinct mortality experience, so that industrial insurance requires separate mortality tables.
- (5) Industrial insurance accepts risks from ages one to seventy years





in contrast to the ordinary forms, accepting only adult risks. Industrial insurance insures both sexes at the same premium, accepting female risks as freely as male risks, while ordinary companies write almost entirely male risks. One of the largest industrial companies makes no color distinction in its risks, while the others do. Ordinary insurance is written almost exclusively on white applications.

Industrial insurance, just as ordinary insurance on the legal reserve plan, has level premiums. These of course must be sufficient to ---

- (1) Cover mortality,
- (2) Pay expenses,
- (3) Provide a reserve.

Thus we have the net premiums to cover mortality and provide a reserve and a certain percentage of loading, based on the net premium to pay the expenses of the company.

Thus the industrial company faces the problem of making provision for -

- (1) The special mortality of the class for whom the insurance is devised,
- (2) The statutory reserve that makes the insurance safe.
- (3) The expense of placing the insurance and collecting the premiums to keep it in force.
- (4) The agents, in such manner that the method of compensation shall tend to prevent lapses.
- (5) The proper distribution of the surplus.

Thus we see that the system of industrial insurance operates under peculiar conditions and limitations. Limited in its application to the industrial classes, it must be sufficiently elastic to meet the requirements



of all. Part of its real value is in the teaching of industrious and economical habits to the laboring class. As it is found in operation today, industrial insurance is a part of the modern movement of mutualization and the recognition of one's duty toward his fellow men, along with the unique individualism of the day.



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## CHAPTER II

THE HISTORY, ORIGIN AND DEVELOPMENT OF THE INDUSTRIAL  
INSURANCE BUSINESS.

\* \* \*

SECTION I. *Origin and History in England.*

The "industrial insurance" principle may be said to have had its origin many centuries ago. The Greeks and Romans had societies or organizations, one of whose functions it was, in return for the periodical payments, to provide for the burial of its deceased members, and for gratuities to their dependents. But perhaps the earliest traces of the direct predecessors of our present day industrial insurance companies, we find in the Middle Ages. During this time there were Guilds existing in England and in many parts of the continent. These guilds had a loose form of organization and management and one of their functions may be said to have been the accepting of payments from their members, at certain periodical times and in return for this, the guilds accepted the responsibility and expenses of burial of its members.

Then after the destruction of the guilds by Henry, the Eighth, burial clubs and societies took over the insurance function of the guilds. These clubs were conducted on a somewhat better basis than the guilds, but they had little or no idea of modern insurance theory. The premiums were the same for all ages. They were mainly local in their operations and many thousands existed throughout Great Britain in the early part of the nineteenth century. While these clubs continued in business for a while, the management of them was universally so bad and the scientific knowledge of what they were about, so scanty, that large numbers likewise failed every year.



These burial clubs were in turn superseded by a better and more substantial form of insurance organization, the "Friendly Society." Burial clubs existed along side by side with the friendly societies for many years. But even the friendly societies were not managed properly, nor were adequate premiums charged. If adequate premiums were charged, proper reserves were not kept, so that the financial condition of these societies was at best very doubtful and the path of their existence is strewn with many corpses. Gradually the feeling of need for an adequate, secure and sound form of insurance protection was felt, especially among the poorer industrial classes of England. There was a great need for secure insurance protection, adapted in a form to meet the needs and economic requirements of the laboring classes. Historically, then, industrial insurance grew out of the unscientific, clumsy efforts of the people to insure themselves by small clubs and fraternal societies. None of these were very large, so the system did not attract attention, but it was extravagant, unfair and unsafe.

Until about the middle of the nineteenth century, England was overrun by these small friendly societies. Many issued no policies at all. Membership was very often obtained simply by a card. Blank forms or coupons were given for payments. The management was very often in the hands of the collectors themselves. These collectors encouraged lapses. Meetings of the boards of directors were characterized by being more like drinking bouts than like business meetings. Often friendly societies and collecting companies would save themselves from financial failure by wholesale lapses.\*

It was out of this bed of corruption and ill management that industrial insurance operation, as we find it today in the form of the legal reserve life insurance company, had its origin.

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\*Haley Fiske, *Charities Review*, March 1898.





In 1849 the first industrial insurance company was founded in England, called the "Industrial and General". In 1852 the "British Industry Life Assurance Company" formed a branch of the former. The "Age" started in 1853. These were all started in London.

These companies expected big things from the industrial branch of life insurance, but the experience of the first few months proved it to be necessary to confine that department within very narrow limits.

At this point the real business of industrial insurance started. The Prudential of London was founded in 1848, but first transacted an industrial business in 1854. In 1850 there was a Parliamentary Report on industrial insurance which aroused widespread interest in industrial insurance. It was called the "Savings of the Middle and Working Classes." This paper exposed at some length the inaccurate and unscientific methods and means of the burial clubs, collecting and friendly societies. Wage-earner's insurance had been before the English public as the result of several extensive investigations into the practices of friendly societies and burial clubs. These results were published by order of Parliament between 1847 and 1854. These investigations showed clearly the corruption in the existing conditions, so that the Prudential Assurance Company of London started the real business of industrial insurance in England; followed afterward by many other companies.

It was called the Prudential Mutual Assurance, Investment and Loan Association when founded and later changed its name to the Prudential Assurance Company. The British Industry soon absorbed the Industrial and General. This in turn was absorbed by the Prudential in 1859. By 1871 all the companies transacting business in industrial insurance before 1854 had ceased to exist. So the Prudential is rightly considered the pioneer in the field





and it was this company that made the system successful. It had a long and hard struggle for existence at its start. Public prejudice had to be overcome and public confidence gained.

Business was at first experimental; no reliable mortality tables or data was then existent particularly adapted to industrial business. Tables of benefits for weekly premiums of one penny were used. The first table extended from ages ten to fifty years; then later from seven to fifty years. The demand was very great for insurance at younger ages. This was at first met privately by an agent of the Prudential on his own account. He made such a splendid record and met with such pronounced success that the company, upon examination, discovered the real cause and forthwith took up that branch of the industrial insurance business. At first the Prudential Company did not meet with pronounced success. It started the business in 1854. Several years later the business was condemned as unsatisfactory. The expenses were entirely too high. Somewhat later a proposition was made to the board to abolish industrial insurance altogether. However, one more effort was made; large sums of money were lent out of the private resources of the directors, or were borrowed from personal friends, after the repayment of capital and interest was guaranteed. Then it was that the success of one agent was brought to light, as was mentioned above, and it was discovered that he had started a society of his own, in which he insured the lives of children too young for admission into the Prudential. Insuring the children, he found was a fine inducement for the parents to insure also. Thereupon the company took over his business. This added a feature that meant much for the success of the business. The secret of success was in supplying the needs and demands of the working people for *family* insurance. A new table was then used with "age of entry not under three months."



The London Prudential now insures from one week upward and on practically the same plan of infantile and adult insurance as is in force and practised by the American industrial companies. Standard and sub-standard rates are used. The above company was the largest industrial company in the world for many years and in fact now has the largest number of industrial policies in force of any company in the world; but the average face of the policy in Great Britain is lower than it is in the United States.

Mr. Henry Harbin has been the dominant personality in the company and a man of great integrity and administrative ability. To his urging and influence is due largely the introduction of industrial insurance in the United States at the time it was introduced.

The chief competitors of the industrial insurance companies in England are the "Collecting Friendly Societies," such as the Liverpool Victoria Legal founded in 1843; The Royal Liver founded in 1850; The Royal London founded in 1861; and many others which are to this day the most important competitors of the insurance companies in England.

The fundamental difference in the two forms of organizations is that, as a rule, collecting friendly societies are less efficiently managed and are without the rights and power incidental to incorporation under the Life Insurance Companies' Act of 1870. The former are now governed by the Friendly Societies Act of 1875 and the later amendments of 1896. An act has also been passed whereby friendly societies may be converted into insurance companies.

In 1894 the Salvation Army undertook the industrial business, managed by a separate corporation. It employs agents and has a lower expense rate due to the organization in the "Army." Its results have not been large but have been satisfactory.





The government also issues industrial policies under the "Post Office Savings Bank Plan." This plan was started in 1864, under the advice and aid of Gladstone. He prophesied a brilliant future for this plan of industrial insurance. It employed no agents and the people were supposed to go to the Post Offices and there insure themselves voluntarily. The plan was a failure considering it as a practical business venture. The public did not respond as was anticipated. A few hundred policies have been written each year, while the large companies have written millions of policies each year in competition with the government plan. It is becoming relatively less important each year. It was thought that by the elimination of the agent, the insurance could be offered at a much lower figure, but such was not the case. The government was unable to materially lessen the cost and this plan has been gradually losing ground. Another cause of failure was that the policies in their age limits and amounts were not adapted to meet the needs of the workingmen. At the same time the private companies have been growing and expanding at enormous strides.

An industrial assurance company is defined in the Collecting Societies and Industrial Assurance Companies' Act of 1896,---

"An Industrial Assurance Company, is a person or body of persons, whether incorporate or unincorporate, granting assurances on any life for a less sum than £20, that receives contributions or premiums by means of collectors at a greater distance than ten miles from the registered office or principal place of business of the society or company, at less periodical intervals than two months.

Industrial assurance companies are regulated as regards the assurance business by three parliamentary acts.

(1) The Life Assurance Companies Act of 1870,





(2) The Collecting Societies and Industrial Assurance Companies Act of 1896,

(3) The Friendly Societies Act of 1896.

All life insurance companies operate under the first act. Industrial companies comply with all the provisions of this act and make all returns of annual accounts and periodical valuations to the Board of Trade in accordance with the schedules set forth therein. The main object of this act is publicity. The accounts set forth exhibit clearly the financial condition of the company and the valuation schedules are also for publicity purposes.

The provisions of the second act affect industrial companies principally in the relations of the company to its policy-holders.

A notice must be served upon each policy-holder before forfeiture, stating the amount due by him and informing him that in case of default of payment by him within a reasonable time, not being less than fourteen days and at a place to be specified in the notice, his interest or benefit will be forfeited.

This act also has to do with transferals of business from one company to another.

Act number three relates to payments on the death of children. Child assurance is regulated by clauses 62-67.

Societies, one or more, are forbidden to pay on the death of a child under five years over £6 or on the death of a child under ten years more than £10.

The sums are payable to the parent or the personal representative of the parent and upon the production of the certificate of death containing the particulars mentioned in the act.

There are also certificates regarding the registrar of Death and other parti-



culars.

Before a society can pay a claim it finds out whether any other claims have been paid on that life.

These provisions regarding payments of children's claims do not apply when the person insuring has an insurable interest in the life insured.

The practices of the companies, the policy provisions and style of operation are almost identical with the practise found in the United States.

The practise of life insurance is now practically universal among the industrial classes of England. Competition among the industrial companies is now very keen. The industrial assurance company corresponds with our stock company of the United States and the collecting friendly societies are the mutual companies of the United States, as far as comparison may go. But in England they are somewhat less stringently regulated and their reports are not so readily accessible. There is practically an industrial policy in force in England for every man, woman and child on the island. Of course, there are many duplications, but at least three-fourths of the population are industrially insured. Whole streets and sections of the cities are prevalent where there is not a single person, but has at least one industrial policy.

The weekly collection of premiums has long been recognized as necessary to the success of the business. The practice of the companies has always been to pay claims promptly on the presentation of the necessary forms. Facilities are offered for the revivals in the policies; "within one year on evidence of good health and the payment of arrears" the policy may be revived. The benefits are lowered the first six months of the first year, but after that the full face of the policy is paid as a claim.





The companies grant "paid ups" on policies of over five years duration, but no cash surrender values are given as it is not thought to be conducive of thrift. The whole system has made important strides in the last forty years.

Valuations on industrial policies are in accordance with the Act of 1870 and the question is, says Mr. Frederick Schooling, "Shall an allowance be made in the valuations for the rate of discontinuance?" In the American nomenclature, discontinuance means lapses. The lapses are heavier, of course, in the earlier years. About two thirds of the policies in a given issue, that lapse, do so in the first year of issuance. The larger companies of course are best able to take care of initial expenses without amending in any way the straight plan of net valuations. The Prudential of London is by far the largest company of any conducting an industrial insurance business in Great Britain and makes no allowance for lapses, in its valuations. The Prudential of London makes a net premium valuation on a three percent basis. The table of mortality used is the English Life Table, number three. Of course many of the smaller companies must resort to some scheme of allowance to tide over the period of high initial expenses, as they do not have an extensive surplus from which to draw. The lapse rate in England is a very important factor. Between ages twenty-five and thirty years, for all policies that lapse in a given issue, this has been found to be for successive years of duration of the policy, to occur in the following percentages, ---

Year	1	2	3	4	5	6	7	8	9	10
Percentage	55	25	16	12	8	8	7	7	7	6

These are similar to results obtained in the United States.

The fact





that there are no medical examinations and that very small sums are receivable weekly on the industrial policies, increase the importance of the lapse factor. The small companies must take this lapse factor into account.

There is a diversity of practice in the matter of valuations among the various companies. Some evaluate according to

(1) Net premium reserves.

(2) Policies under five years duration -- no reserves.

Policies over five years duration -- net premium at age  $(x + 5)$

(3) Premiums valued are office premiums less 30 percent.

(4) Policies over thirty years duration -- net reserves at true entry age.

--- between fifteen and thirty years duration net premium at age  $(x + 5)$ , where  $(x + 5)$  denotes the age plus five years addition.

--- policies under fifteen years -- 35 percent off the office premiums.

Thus there is much diversity and an absolutely equitable plan is hard to obtain.

Prior to the Life Insurance Companies' Act of 1870 there was no obligation to make public or publish any accounts of any company or office. It was general custom not to reveal the accounts of any kind. While many companies were strictly sound, this secrecy of accounts was the cause of many evils, in concealing fraud, carelessness and inefficiency. According to the Act of 1870, only a rather meager report was required; but by the Assurance Companies' Bill of 1909 all life assurance companies transacting business in England are subject to the conditions of the act. It is a great improvement over the state of affairs since 1870. Every company now must make out at



the close of each financial year ---

- (a) A revenue account.
- (b) A profit and loss account.
- (c) A balance sheet.

Children's insurance is carried on extensively in Great Britain. Its advantages are seen and with proper precautions taken as to amounts allowed and a careful qualification regarding insurable interest, the system has met with wide success. Practically all legitimate insurable children are now insured in England between birth and ten years of age and there is only one policy to each child.

So that we have seen that industrial and children's insurance is almost universal in England. It is here as elsewhere a great provident institution promoting thrift and saving. Mr. Schooling reported at the Fifth International Congress of Actuaries in Berlin in 1906, that the death rates were continually improving: the rates of insured children are less than children for the general population. There is always a saving in mortality. Children are not neglected as a result of children's insurance. The infantile death rate is decreasing. Parliamentary committee reports have many times substantiated these statements.

The following returns for Industrial insurance in Great Britain by 1914 Year Book, according to latest reports of companies, give ---

Amounts of new policies issued	£ 8,330,523
Total Premiums	£ 20,832,290
Claims paid	£ 8,665,427
Expenses of Management	£ 9,030,634
Insurance fund exclusive of capital	£ 66,203,567

(from returns of 84 British industrial insurance companies and friendly soc-





ieties.)

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## SECTION II. *History in Germany.*

Private industrial insurance in its present day form is the most recent form of insurance to be given a position in the insurance schemes of Germany. While its definition in Germany is similar to that in the United States and in Great Britain, still there is not the marked uniformity of business which is so noticeable in the latter countries. It is characterized by the small amounts of the face of the policies and by the fact that premiums are payable yearly, semi-yearly, quarterly or weekly at the discretion of the policy-holder and also depending on the company and the form of policy under consideration. The premiums are higher than in Ordinary forms, and the amounts of benefits range from 500 M to 5000 M as a maximum for the various companies. This form of insurance is taken by the industrial classes as in other countries.

The principal characteristics of the German Industrial Insurance is the absence of a medical examination of any kind. Only the sick are barred from admittance. But this freedom of entry and wide acceptance of risks is overcome very largely by the long "Karenzzeit" or waiting period, of from one to four years, during which time only partial or no benefits at all are paid. This, of course, is the equivalent of the American idea of deferred benefits, but is extended by the Germans to a much longer period than is customary in the United States.

The history of industrial insurance in Germany is one of comparatively short duration. The Prudential of London started in 1854. The Prudential of Newark, New Jersey, started in 1875. As early as 1856 the Rothenburger Insurance Society and the Thuringia Joint Stock Company in reality transacted industrial insurance under the name of burial insurance; with a two year waiting period in the Rothenburger and a medical examination in the





Thuringia. The Rothenburger paid one-third benefits during the first year and during the second year, two-thirds benefits; after that full benefits. In 1875 a general society at Stuttgart was in operation; it had no medical examination and had monthly and yearly premiums. In 1878 "Schutz and Trutz" started in business with weekly premiums and a minimum payment of five pfennigs. There was no medical examination and a one-year waiting period was in force. But these were small and relatively insignificant undertakings. In 1880 the "Nordstern" entered the industrial field. In 1882 the Friedrich Wilhelm started in the industrial business in Berlin. This may be called the real start of the business in Germany just as the Prudential of London marked the real start of the business in England. It was followed in 1892 by the Victoria of Berlin; the *Wilhelma* of Berlin in 1893; later by the Arminia and Gegenseitigkeit and many others. At the present time we have as the leading joint stock and mutual companies:

*Joint Stock Companies.*

- (1) Friedrich Wilhelm
  - (2) Victoria
  - (3) Arminia
  - (4) Bayrische
  - (5) Deutschland,
- and many others.

*Mutual Companies.*

- (1) Allgemeine Deutsche Versicherungs Verein
- (2) Gegenseitigkeit
- (3) Iduna
- (4) Rothenburger, and many others.



The Friedrich Wilhelm Company started in 1882 by taking over the business of the Prussian Life Insurance "bank" or company "Patria." This company makes use of the stamp system, which was originally invented by the Patria, and subsequently the use of the stamp as evidence of premium payments was adopted by the German government in the administration of its old age and invalidity pension system. In 1910 the Friedrich Wilhelm and Victoria companies transacted 71.2 percent of all the industrial insurance business in Germany.

Previous to the taking over of the Patria the tendency was toward granting smaller insurances. Workmen's Insurance, (so called in 1883), was growing some but the real impulse to the work was started by the taking over of the Patria. The starting of the use of weekly premiums, adapting the industrial insurance to the needs and conditions of the industrial classes, and the general modeling of the German system after the English plan seems to have led to its ultimate success. In 1892 the Victoria undertook the study and plan of the London Prudential. Following in its foot-steps, with such great energy that in 1912 the number of the policies in force and the amounts of insurance of the Victoria in force was greater than that of the Friedrich Wilhelm. In 1912

Victoria had 3,808,000 policies for 845,000,000 M and

Friedrich Wilhelm had 2,912,000 policies for 452,000,000 M.

This was 70 percent of the business in Germany for that year.

There were in 1913, in Germany, some twenty-six companies operating with over 9,000,000 policies for 1,850,000,000 M in force.

There are two forms of organization, the mutual and the joint stock forms. Private industrial companies have a capital of 2,000,000 M and 1,000,000 M "organization fund," so called. This is non-interest bearing





and under the restriction of four percent dividends agreed to during the entire existence of the company. They operate in accord with the general social and economic policy of the country. There are several forms of industrial insurance company organizations or manners of conducting business.---

(1) Private companies on the plan of the Victoria and Friedrich Wilhelm.

(2) Düsseldorf Verein-Bank:

This is a new system and on the order of the savings bank insurance of this country, the agents of the company being the savings banks.

(3) Public insurance institutions by the state; State insurance.

This form is claimed to be less expensive than the other forms but this must yet be demonstrated. It was started in 1911 and the results thus far have been rather disappointing.

Lately there have been several new schemes tried out and their success is yet to be proven---

(1) Volksfürsorge, a plan of co-operative association started in 1911-1912.

(2) A form of public industrial insurance formed with the idea of lowering the cost of industrial insurance.

(3) In 1913, thirty private companies joined into the German Industrial Insurance Combine called the "Deutsche Versicherung." This does not include the Victoria and Friedrich Wilhelm.

But at the present time there are five leading forms in Germany which have to be dealt with in questions concerning practices, experience and provisions of policies under the different forms of organization. There are now five companies ---



- (1) Victoria
- (2) Friedrich Wilhelm
- (3) Öffentliche (State Insurance Department)
- (4) Deutsche Volksversicherung (the combination of thrity small companies)
- (5) Volksfürsorge.

These five forms of organization or companies cover practically the entire industrial insurance field at the present time.

The claim is often made by German writers, that nowhere is industrial insurance so cheap as it is in Germany. This statement is based on certain figures showing the relative expense rates of companies in the United States, England and Germany; as an illustration ---

Victoria of Germany --- Expense rate = 24 percent of premiums

Prudential of London -- Expense rate = 40.7 percent of premiums

Metropolitan of New York -- Expense rate = 33.3 percent of premiums.

Considering lapses ---

Metropolitan of New York = 9.3 percent

Victoria of Berlin = 2.4 percent.

The question of cheapness of insurance is a very complicated one and for any writer to assert that a certain company is the cheapest of any, is perhaps not justifiable. In fact it is very doubtful, if after taking into consideration all the elements of the business, if German companies furnish like insurance at rates any cheaper than American companies. This is true principally because the policy of the American companies is one of much liberality to the policy-holders.

But there is one feature in which the German companies do have an ad-





vantage over the English and American companies, and that is in the matter of lapses. German companies do not experience nearly the amount of lapsing, with its resultant disastrous effects on the business; its demoralizing influences on the field forces, and the policyholders in general, that the English and American companies do. The business seems to be more stable in Germany. The habits and customs of the people must be taken into consideration. The amounts of immigration, the rapidity of business operations and the general habits of the two countries must also be taken into consideration, in the study of a question of this character. The German insurance company transacting business is on the whole an efficiently and economically conducted business organization. Their investments are very important in the home market and they are of great financial importance to the government and in their relations to the loans of private banks. Most of the business, of course, is done in the larger cities. Here the interest rate is higher and a higher rate can be earned in the cities on mortgages and other forms of investment, than in the country, due to the extensive German system of rural credit, making loans cheap to farmers. Such is not the case in the United States and in England. So that the industrial companies in these countries are at a disadvantage in this respect.

This is true theoretically, but in actual practice it is doubtful if many German companies can surpass the record of the Union Central of Cincinnati; average over 6 percent and many other American companies at from four and one-half to five percent, as an average return on all investments. The German system of rural credit is very effective, but this condition is overcome, because of the great differences in the economic conditions of the United States and Germany, in the matter of interest returns on investments. The provisions of the policies are in general very similar to the American





and English forms, although in some phases, perhaps, not as liberal as are the American contracts. In 1913 there were about 26 active industrial insurance companies, mostly on a four percent basis; these companies do not have a standard form of contract but all differ in minor points. The "Karenzzeit" varies from one company to another. The premiums are paid in the various companies, some weekly, monthly, quarterly, and semi-annually; even some bi-monthly. Some companies offer surrender values; others do not. The Victoria and Friedrich Wilhelm give paid up policies after three years duration. There are various limitations regarding climate, diseases, military service and other points which have all been done away with in the American industrial contracts.

On the whole, however, the policy conditions may be said to be fairly uniform in Germany and in fact the world over. The practice and experience of the German companies is more or less similar to the American and English companies. They allow participation in the profits, but usually in the form of deferred dividends or else applied to the payment of premiums. The mortality tables in use are the general public mortality tables, since there is no medical examination. There has been found almost always to be a saving in mortality and the effect of the "Karenzzeit" is noticed very markedly, as a great number of deaths occur within this waiting period. The expenses of conducting the business are higher, of course, than in ordinary companies but the Germans boast of their efficiency and economy in administration.

The new law on insurance contracts permits the companies in cases of "insurances of small amounts" to make special conditions with reference to lapses, exchanges and bringing back of policies, differing from the usual rules of insurance but always providing the supervising authority sanctions these exceptional rules. The insurance of children is considered an essen-



tial part of industrial insurance. The proportion of children to adults follows closely the proportion of ages as shown in the general population tables. As infantile industrial policies are on the endowment plan mostly of ten to thirty year terms, there are no legal restrictions on the amounts allowed on children, but the usual practice is to insure so that the benefits will just pay the burial expenses.

The experienced mortality was only 54.3 percent of the expected, in 1903 according to general population tables. The observations of the Victoria showed similar results in 1902 and 1904. The rate of claim for insured children is almost always considerably smaller than by the calculation according to the number of policies issued. The explanation of this is found in the observation that the mortality of children diminishes with the growing prosperity of the population; it shows moreover that speculative insurance on the lives of children needs not to be feared. The percentage of the experienced to the expected mortality is higher among adults than among children (not so great a saving). It was found to be about 75 percent of the expected for above age thirteen exclusively. Here the rate of claims based on the sums assured is almost always greater than when based on policies. The inference is made, that with the insurance of grown-up persons a selection unfavorable to the insurance company takes place; that is to say, that persons in a less perfect state of health are more inclined to insure for a higher premium and a larger insurance time than other persons, so as to get a higher insurance sum. In the case of childrens' insurance such a selection does not exist.

Industrial Insurance in Germany seems to have a great future before it and it will fit into the general system of social insurance as part of the greater humanitarian movement of the present time.





The fundamental German idea is that industrial insurance shall be only one part of the general system of social insurance, including all its phases (and preferably on a state basis if possible). The compulsory system of accident, sickness, old-age and invalidity insurance in Germany has not been a material hindrance to the development of industrial insurance, but it is held to the contrary by those in a position to express an opinion on the subject, that the emphasis placed upon the insurance principle by the German government has been in fact a material aid to the development at least of life insurance as a private enterprise.



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### SECTION III. *History in the United States.*

The present system of industrial insurance in the United States is of comparatively recent origin, but since its start, it has had a phenomenal growth and development, increasing in numbers of policies in force and especially in the amounts of insurance in force, far beyond the fondest dreams of its originators. But it has had much to encounter and overcome before its success was in any way assured. There was a considerable public sentiment against the proposition that industrial insurance is an aid to the poor in their struggle to a plane of economic independence. The public was somewhat used to being swindled by schemes of insurance and benefits at death and naturally classed the new scheme as simply being one of these swindling devices.

The thought of providing insurance for the poor in this country by small weekly amounts was an early one. The earliest forms were workmen's co-operative insurance schemes. These were of a very crude form and a menace to sound principles of industrial insurance. In 1847 one company, the Mutual Benefit Life, offered a life insurance contract to the working class to be paid for by weekly premiums of twenty-five and fifty cents. But the plan was new and was not popular; it soon failed and the business was discontinued. No special provisions were made for the collection of premiums and withal it did not meet the needs of the industrial class satisfactorily. In 1866 the American Popular Life Company tried a plan similar to the Mutual Benefit Life and failed for practically the same reasons. Then some ordinary companies offered insurance for benefits as low as \$100 and for ages as low as fourteen years, one company even offering a contract of this kind as early as 1840. These all failed because of the inconvenient collection of premiums and the lack of adaptation to the needs of the poor.





Then for the next twenty years or until about 1868 the question was practically dropped, as far as the activity of companies was concerned and the workmen were left to take care of themselves as far as insurance matters pertained to them. Gradually there was felt more and more an imperative need for a workmen's insurance; for a form suitable to the needs of the working classes, and one that would meet the conditions of the industrial class as they were. Further, a system was needed sufficiently elastic to meet the needs of all classes of workmen, and still one that would be convenient, secure and at the same time one that would be practical from a business standpoint. This was the problem that the founders of our present industrial insurance system had to face. Combined with this was the adverse public sentiment and the general distrust of all such ideas. It was not an easy problem. It was one that taxed to the utmost the resources of the greatest insurance leaders and thinkers of that time. That they succeeded, is amply borne out by the later brilliant records. Then came into some prominence the so-called "Bund" system. These societies collected premiums weekly from their members and turned them over periodically to an organized insurance company, usually at monthly or quarterly intervals. These payments were then considered as quarterly payments on ordinary forms of insurance. The Bund then, was a sort of society or company that virtually took the contract and responsibility of collecting weekly the premiums on the usual forms of insurance. Particularly well known was the "Hildise Bund," a large society whose members were mostly of German origin and whose operations were mainly among that class of people. This company paid its collections into and afterward was absorbed by, the Metropolitan Insurance Company of New York City. There were many of these Bunds in operation among the German and Scandanavian immigrants of the large cities. The "Hilfsmoth" was another Bund of considera-



ble importance. Commencing in 1868 there were numerous attempts to float industrial insurance companies in New York, Chicago and New Orleans. For various reasons they met with no appreciable success and soon failed. In 1868 the Prudential Assurance Company of London and its wonderful experience was first brought effectively to the attention of the American people. Two things brought the success of the Prudential to the attention of the American insurance men.

(1) The International, an English company doing business in Massachusetts, was examined and found to be insolvent by Elizur Wright, insurance commissioner of Massachusetts, and the company ceased business.

(2) Wright's "Critical Review of British Insurance Companies" in his report of 1865 did most to draw attention to the wonderful success of the London Prudential and to the opposition to this company by Mr. Gladstone, Chancellor of the Exchequer.

The controversy with Mr. Gladstone brought the subject to the attention of Americans. Public interest was aroused in the subject and many Englishmen immigrating from England to the United States introduced the friendly society idea. This movement caused the widespread development of friendly societies during the period between 1865 and 1875.

In 1871, the paper on industrial insurance by Mr. Henry Harbin, the genius behind the success of the Prudential Assurance Company of London, was first published in the United States. This paper attracted much attention in the insurance world. Correspondence with Mr. Harbin later led that gentleman to frame an act for the Congress of the United States, whereby the English Prudential plan could be operated in this country. He also furnished numerous forms for that purpose.





Insurance papers took up the discussion of industrial insurance. The "Insurance Times" in particular pointed out the fact that the plan could be successfully adapted to the industrial needs and conditions in the United States. This paper showed also that the assessment, fraternal and various other plans tried heretofore had all been failures; along with the numerous attempts of the labor unions and laborer's organizations to furnish their members a form of insurance adapted to their conditions. In 1873 the "Spectator" and the "Monitor" both had articles refering to the English Prudential and its work in England. The former paper especially expressed its doubts as to the ultimate success of the business of industrial insurance when applied to American conditions. In 1874 Mr. Clark, the Insurance Commissioner of Massachusetts, in his report to the state legislature described the work and experience of the English Prudential with a view of bringing the subject to the attention of the American people.

The Widow's and Orphan's Friendly Society was chartered in the city of Newark, New Jersey, in 1873 under the guidance and inspiration of certain men inspired with the belief of the ultimate success of industrial insurance in the United States. This society was re-organized in 1875 under the name of the Prudential Friendly Society. The first industrial life insurance policy written in this country was dated November 10, 1875, and was written by the Prudential Friendly Society, which afterwards became the Prudential Insurance Company of Newark, New Jersey.

Co-operative and assessment friendly societies and companies flourished in the United States during the period 1865 to 1875. Their objects were to reach the workingmen. Their methods were impracticable and unscientific and ultimately the plan failed.

All the while a great need was felt among the workingmen for a good,



secure, convenient, available system, adapted to their needs and abilities. Life insurance should be made available to wage earners and this should be done by making premiums easily payable in small installments; by grading the insurance to the amount of the premium; by adapting the insurance to every member of the family. This has thus far been possible, only by one means; by collecting the premiums *weekly* by calling at the *homes* of the insured. This entailed the necessity of a large field force in connection with the collection of premiums and soliciting of new business.

Mr. John F. Dryden was attracted by the success of the English Prudential. He thoroughly believed in the industrial insurance idea and had the courage to follow his convictions with actions. His untiring zeal and faith enabled the project to start against apparently unsurmountable difficulties. Mr. Dryden gathered a circle of capable men around him and entered upon the venture, for which was prophesied certain failure. The Prudential Friendly Society was chartered February 18, 1875. It began business on November 10, 1875 and on March 15, 1877 its charter was amended and the society put on a purely commercial basis.

In 1879 the Metropolitan Insurance Company of New York, already transacting an ordinary business, started into the industrial field. The same year the John Hancock Mutual Life Insurance Company of Boston Massachusetts also started transacting industrial business. The Provident Savings Life Insurance Company and the Germania also started the business, but soon gave it up. In later years many other industrial companies have started, some since continuing with good success, others retiring from the business after a short while. But the three large companies have continued uninterruptedly in the business, continually growing larger, stronger and more secure, and at the same time more liberal in their policy provisions and continually





lower in their rates. For many years they have given voluntary dividends in large amounts; and as a most recent step, one of the largest companies has now become mutual in its organization, and the largest industrial company in the United States is also taking steps in that direction. The John Hancock Company has long been a mutual company. It is these tendencies toward increasing liberality and the returning of profits to policyholders by mutualization, that may be said to characterize the attitude of the industrial companies at the present time. The business has been a difficult and expensive one to establish. Large outlays from private sources were necessary before the system was self-sustaining. Expert internal management and field talent were necessary. A large body of men had to be trained and educated in the work. This took considerable time and was an expensive process, but when once the preliminary difficulties were over, success was more assured and the companies grew, expanded and developed.

The initial steps to promote industrial insurance in the United States were confronted with much opposition, often of a virulent nature. The business was considered wrong and against the best public policy. Industrial life insurance was not considered legitimate. It was discountenanced, but despite adverse sentiment, it gained a gradual start until within the last decade it has been growing by leaps and bounds. Charity workers were against the system. Newspapers conjured up "monstrous abuses" of all sorts. But honest methods in general prevailed. Public sentiment has now largely changed; the system is getting its just deserts and state insurance departments have aided in bringing the truth to the front. The great business and financial depression throughout this country in 1873 added to the difficulties of starting an industrial insurance venture at that time. Money was hard to obtain to start the new enterprise. Another difficulty was the fact that





statistical data was wanting in this country, as well as competent actuarial experience to guide the company in its policies and practices. When the Prudential Company started, it was on lines patterned after the British friendly societies. These had sickness and other provisions. The Prudential, in its early history, had four aims,

- (1) The relief of sickness and accidents.
- (2) A pension for old age.
- (3) An adult burial fund.
- (4) An infant burial fund.

All other features but straight life insurance were found to be impracticable and were soon discontinued. If an adequate supply of trustworthy data had been on hand, these mistakes would not have been made. The ideas of the early workers in the industrial field was that what the working class demanded was *cheap* insurance, even *at* some risk as to security. There is only one kind of *cheap* insurance and that is *insecure* insurance; that is, insurance based on illogical and unscientific principles. Of course, those early attempts failed. It was not cheap insurance that the industrial class needed. It was *convenient* insurance, -- insurance adapted to their economic condition and their ability to pay. It was that one virtue above all others, *security*, that enabled the companies to survive those early times of criticism and disregard.

Industrial insurance is written in all the states of the United States, besides in all the more important sections of the Dominion of Canada. Industrial insurance is in evidence especially in urban communities where many millions of policies are in force at the present time. All big disasters bring it into prominence because of the number of claims paid. In many states in the east, especially New Jersey, parts of New York, Pennsylvania,



Ohio, and the New England States, the system of industrial insurance is now practically universal in its extent. Many cities have whole sections where not a single person resides, but has an industrial insurance policy. Its immense proportions and phenomenal growth, combined with its policy of helpfulness to the poorer classes at the present time mark it as one of the foremost provident institutions of England and the United States.





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## CHAPTER III

A STUDY OF THE INDUSTRIAL INSURANCE COMPANIES IN OPERATION  
AT THE PRESENT TIME.

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The industrial insurance companies of the United States, at the present time, operate in all the states and in the Dominion of Canada. Considering the fact that the first American industrial policy was dated November 10, 1875, the millions of policies now in force clearly show the remarkable development of the business.

There are in the United States at the present time, doing and transacting the business of industrial insurance, twenty-two companies. They are ---

1. American Assurance Co. of Philadelphia, Pa.
2. American Life Insurance Co. of Chicago, Ill.
3. American National Insurance Co. of Galveston, Tex.
4. Baltimore Life Insurance Co. of Baltimore, Md.
5. Beneficial Life Insurance Co. of Salt Lake City, Utah.
6. Boston Mutual Life Insurance Co. of Boston, Mass.
7. Carolina Life Insurance Co. of Columbus, S. C.
8. Colonial Life Insurance Co. of America of Jersey City, N. J.
9. Commonwealth Life Insurance Co. of Louisville, Ky.
10. Equitable Life Insurance Co. of Washington, D. C.
11. Home Life Insurance Co. of America of Philadelphia, Pa.
12. Independent Life Insurance Co. of America of Nashville, Tenn.
13. John Hancock Mutual Life Insurance Co. of Boston, Mass.



14. Life Insurance Co. of Virginia of Richmond, Va.
15. Metropolitan Life Insurance Co. of New York, N. Y.
16. Mutual Life Insurance Co. of Baltimore, Md.
17. Prudential Life Insurance Co. of America of Newark, N. J.
18. Prudential Life Insurance Co. of San Antonio, Tex.
19. Public Savings Insurance Co. of Indianapolis, Ind.
20. Standard Life Insurance Co. of Atlanta, Ga.
21. West Coast Life Insurance Co. of San Francisco, Cal.
22. Western and Southern Life Insurance Co. of Cincinnati, Ohio.

The following tables show the number of policies and amounts of industrial insurance in force in the United States from 1875 to the present time; further, the industrial insurance in force per capita population according to the population estimated yearly, between the census years of 1870, 1880, 1890, 1900, 1910.

During the last decade the average amount of the industrial policy in force is seen to remain pretty much the same, but the per capita amount of industrial insurance in force has been steadily increasing.

The figures through 1910 are from data by Mr. Hoffman, Statistician of the Prudential Insurance Company. After 1910 are the author's results, computed from Spectator Year Book data.





## Industrial Insurance in Force (U. S.)

Year	No. of Companies Reporting	Number of Policies	Amt. of Insurance	Average Amt. of Policy in Force.
1875				
1876	1	4816	\$ 443072	\$ 92
1877	1	11226	1030655	92
1878	1	22808	2027888	89
1879	5	60371	5763867	95
1880	5	236674	20533469	87
1881	5	367453	33501740	91
1882	4	590053	56564682	96
1883	4	877334	87793650	100
1884	4	1092529	111115252	102
1885	4	1377150	145938241	106
1886	4	1780372	198431170	111
1887	5	2310003	255533472	111
1888	9	2794102	304673004	109
1889	10	3366062	365841267	109
1890	10	3882914	428789342	110
1891	11	4309362	431925977	112
1892	13	5125866	533533745	114
1893	15	5756746	662647364	115
1894	15	6858233	803067595	117
1895	14	6952794	820746562	118
1896	13	7336095	888267912	120
1897	14	8005417	996144739	124
1898	16	8798512	1110078702	126
1899	19	10052833	1293329995	129
1900	20	11219296	1468928342	131
1901	17	12337019	1640827454	133
1902	17	13448147	1806894473	134
1903	17	14606635	1978241009	135
1904	19	15674334	2135859103	136
1905	20	16872583	2309754235	137
1906	22	17841396	2453616207	138
1907	23	18849357	2577396941	137
1908	23	19687675	2668919696	136
1909	25	21552344	2967596031	138
1910	23	23034463	3177047874	138
1911	32	24708499	3423790536	138.57
1912	31	26942106	3707567865	137.61
1913	29	29243950	3962385087	135.49



## Per Capita Amount of Industrial Insurance in Force (U. S.)

Year	Population	Amt. of Ind. Ins. in force	Ind. Ins. (per capita)
1875			
1876	45,516,817	\$ 443,072	\$ 0.01
1877	46,676,553	1,030,655	0.02
1878	47,836,299	2,027,888	0.04
1879	48,996,040	5,763,867	0.12
1880	50,155,783	20,533,469	0.41
1881	51,434,976	33,501,470	0.65
1882	52,714,169	56,564,682	1.07
1883	53,993,362	87,793,650	1.63
1884	55,272,555	111,115,252	2.01
1885	56,551,748	145,938,241	2.58
1886	57,830,941	198,431,170	3.43
1887	59,110,134	255,533,472	4.32
1888	60,389,327	304,673,004	5.05
1889	61,668,520	365,841,267	5.93
1890	62,947,714	428,789,342	6.81
1891	64,252,400	481,925,977	7.50
1892	65,557,086	533,533,745	8.90
1893	66,861,772	662,647,364	9.91
1894	68,166,458	803,067,595	11.78
1895	69,471,144	820,746,562	11.81
1896	70,775,830	888,267,912	12.55
1897	72,080,516	996,144,739	13.82
1898	73,385,202	1,110,078,702	15.13
1899	74,689,888	1,293,329,995	17.32
1900	75,994,575	1,468,928,342	19.33
1901	77,552,344	1,640,827,454	21.16
1902	79,110,113	1,806,894,473	22.84
1903	80,667,882	1,978,241,009	24.52
1904	82,225,651	2,135,359,103	25.98
1905	83,783,420	2,309,754,235	27.57
1906	85,341,189	2,453,616,207	28.75
1907	86,893,958	2,577,896,941	29.67
1908	88,456,727	2,668,919,696	30.17
1909	90,014,496	2,967,596,031	32.97
1910	91,572,266	3,177,047,874	34.69
1911	93,130,035	3,423,790,536	36.76
1912	94,687,804	3,707,567,865	39.16
1913	96,245,573	3,962,385,087	41.17





There was in force in 1913, according to the returns of the 1914 Year Book of Insurance, 29,243,950 policies for the amount of \$ 3,962,385,087. This gives as an average amount of the policy in force, \$ 135.49 for the same year and also gives \$ 41.17 per capita of industrial insurance in force in 1913. The Prudential and the Metropolitan Companies have by far the greater amount of industrial insurance in force in the United States today. These companies now do over ninety percent of the total business in the United States. The Prudential, Metropolitan, and John Hancock together now do over ninety-five percent of the total business in the United States. These companies are therefore easily seen to be the controlling factors in the industrial business in the United States. These companies operate in all the states of the Union and in the Dominion of Canada. The other companies are mainly local in their nature and operations. This is due primarily to the fact that they are newer and smaller companies. In general, a company in its early history confines its operations to the locality near its home office and later as it grows and meets with greater and greater success, it increases its territory and expands its field of operations. The great predominance in size of the Metropolitan and Prudential Companies is due very largely to their early start; also to the great pioneers and founders of the business behind these two companies; but most of all, it is due to the fact that when they entered the industrial business, experience of a wide and varied nature was lacking. All their data was based on the experience of British friendly societies and insurance companies. Rates were considerably higher then, than they are at present. The policies then did not contain the liberal features found in the present forms; further, the companies were not required by law to keep strict legal reserves. There are, besides, many other restrictions which the new companies of today have to compete with.



In other words it is considerably much harder and more expensive, requiring greater initial funds and capital, to start now, than it did previously, when they entered the business. Consequently since 1875, many companies have entered the industrial business, some meeting with slight success and so failing, others continuing for a while and then having their risks re-insured in some larger company. For these reasons the two or three large companies now completely dominate the industrial business in America. The same is true of England and Germany. The Prudential of London is the one enormously large company of England, all the others being comparatively small. The Victoria and Friedrich Wilhelm are the two large companies in Germany.

It is true of industrial insurance business as well as of all other industrial phenomena; the larger an institution becomes, the faster it proportionately grows and develops. This is amply illustrated by the table showing the number and amounts of new policies issued each year. Figures through 1910 are from data by Mr. Hoffman. After 1910, the figures for the number of new policies issued are the author's, computed from the Year Book data; the amounts of new business issued yearly after 1910 are taken from the Spectator Year Books.





## New Industrial Insurance Issued Yearly (in U. S.)

Year	No. of Companies	No. of new policies issued	Amt. of new business issued
1875			
1876	1	7,904	\$ 727,168
1877	1	10,521	967,932
1878	1	20,064	1,785,696
1879	3	53,604	4,956,809
1880	3	369,474	34,768,035
1881	3	409,384	37,089,522
1882	3	545,477	52,082,281
1883	3	754,614	77,017,326
1884	3	844,273	89,150,302
1885	3	875,083	93,736,727
1886	3	1,118,542	132,674,009
1887	3	1,400,113	187,595,704
1888	6	1,621,181	170,406,321
1889	6	1,858,658	197,611,069
1890	9	2,133,739	241,946,519
1891	9	1,926,399	213,138,800
1892	12	2,460,251	276,893,923
1893	14	2,791,003	344,546,648
1894	13	4,722,607	573,672,395
1895	11	3,145,104	382,064,588
1896	11	2,869,363	360,908,034
1897	11	3,007,633	414,722,127
1898	14	3,080,903	422,164,810
1899	16	3,724,540	519,380,207
1900	18	3,941,584	566,001,576
1901	15	4,132,836	598,581,935
1902	16	4,225,591	611,979,938
1903	15	4,064,145	596,510,564
1904	17	4,264,817	613,404,546
1905	19	4,497,032	660,861,169
1906	19	4,277,805	631,111,688
1907	20	4,148,986	576,203,742
1908	20	4,366,063	594,141,679
1909	23	5,365,825	793,216,616
1910	21	5,009,115	734,793,180
1911	32	4,938,402	785,902,210
1912	31	5,301,120	840,209,323
1913	29	5,716,446	845,962,307





Thus we see in ---

1876 ----	7,904 new policies were issued,
1883 ----	754,614 new policies were issued,
1893 ----	2,791,003 new policies were issued,
1903 ----	4,064,145 new policies were issued,
1913 ----	5,716,446 new policies were issued.

The business, as is easily seen, is growing by leaps and bounds, increasing now at the rate of almost \$ 1,000,000,000 a year.

The opportunity of business of the companies is not growing smaller each year, with the enormous increase in new business annually; but, on the other hand, it is becoming larger and larger. With our enormous annual increase in population and the corresponding increased national prosperity, the opportunities and responsibilities of the companies are ever growing larger. This increased growth should sober them to the definite understanding of their great work to perform.

The structure of the various companies at the present time is very much the same. The general plan of management and administration differs but little among the different companies, in the main essentials, but of course it varies in completeness according to the size of the business, which allows different degrees of division of labor and classifications in the systematic management of the field and home office forces.

There are among industrial insurance companies, as in all other branches of the insurance business, two main forms of organization. The first may be called the "Stock" company; the second, the "Mutual" company. In the former there is a capital fund for a certain amount, subscribed to and owned by a certain group of individuals, the stockholders. This form of company, in general, issues a *non-participating* policy, or one that does not



necessarily share in the profits. There may be a system of voluntary dividends established for letting the policyholders share in the profits, but the profits accruing from the business, normally belong and go to the stockholders. The policy would then be interpreted in the strict sense of the contract and policyholders would not share in any savings accruing from mortality, expenses, interest rates and other savings. But in actual practice there are no absolute stock companies, if we may use that adjective. The profits or dividends to stockholders are limited to a certain specified percent, usually 7 percent in the large important stock companies.

The other form is the *mutual* company. In this plan of organization, the stockholders theoretically are the company; they compose it. All profits accrue to them and they share in all savings. In this form, all the profits from the business must necessarily be divided among the policyholders; at least they can go to no one else. If they receive no dividends, either the company is just "breaking even" in its mortality and other experiences, or else it is actually losing money.

Most of the industrial business has been done by stock companies in the past. The Prudential and Metropolitan and most of the small companies were stock companies. The John Hancock was the largest mutual company; but on January first, last, the Prudential voluntarily went on a mutual basis and the Metropolitan has already taken steps along the same line. So that this year we witness a sudden transference of the vast amount of industrial business in the United States and Canada from a stock basis to a mutual basis. But the dividends to policyholders will not be materially altered nor will they participate in the profits to a very much greater extent than they have done in the last few years. This, of course, is due to the extensive system of voluntary dividends, profit-sharing plans and liberal





policy provisions which these two leading companies have long since had in operation for the benefit of their policyholders. In other words it is practically a transference in name only from the stock companies to the mutual plan, in the case of our two largest companies.

The following table, taken from the 1914 Spectator Year Book, shows the aggregate of the financial standing and business for 1913 of the industrial companies operating in the United States.



Aggregate of the Financial standing and business for 1913  
of Industrial companies.

Number of Companies	31
Capital Stock	7,693,055
<i>Income</i>	
Net Premiums	14,264,067
Renewal Premiums	203,836,222
Received for Annuities	<u>686,632</u>
Total Premium Income	218,836,921
Dividends, interest, etc.	36,526,136
Received for rents	3,147,621
All other receipts	<u>1,717,371</u>
Total interest and other income	41,391,128
Total Income	260,228,049
<i>Expenditures</i>	
Paid for death losses	60,349,409
Paid for mature endowments	3,193,691
Annuities paid and disability	902,009
Paid for surrendered, lapsed and purchased policies	11,710,149
Dividends to policyholders	<u>13,691,177</u>
Total payments to policyholders	89,846,435
Dividends to Stockholders	591,064
Commissions, salaries and traveling expenses of agents	43,531,207
Medical fees, salaries and other charges of employees	10,832,012
All other expenditures	<u>13,935,772</u>
Total expenses	<u>68,890,055</u>
Total expenditures	158,736,490
Excess of income over expenditures	101,491,559
<i>Assets</i>	
Real estate owned	50,243,352
Bond and Mortgage loans	345,748,654
Bonds owned	339,396,568
Stocks owned	12,854,650
Collateral loans	3,615,679
Premium loans and notes	58,009,530
Cash in office and banks	19,836,363
Net deferred and unpaid premiums	17,716,586
All other assets	<u>12,666,971</u>
Total admitted assets	910,088,403
Items not admitted	4,710,965



Aggregate, (continued).

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*Liabilities*

Reserve	772,176,807
Losses and claims not paid	2,797,710
Claims resisted	320,919
Dividends unpaid	18,524,610
All other liabilities	<u>13,857,864</u>
Total Liabilities	807,677,910
Surplus to policyholders (including capital)	102,410,498

*Policy Account*

New business written and paid for, Policies	6,537,306
Amount	<u>850,115,478</u>
Total insurance in force, Policies	29,431,756
Amount	<u>3,977,091,002</u>
Total assets (including non-admitted items)	914,799,373
Total Surplus (including non-admitted items)	<u>107,121,463</u>





## SECTION I. *The Organization of the Companies.*

The internal organization of the companies for the active conduct of the business of industrial insurance is very similar in the different companies. They differ among themselves in small details, as in the names of the officials and territories and also in the relative completeness and thoroughness of their organizations, but in the essential features, they are very similar.

There are two main divisions in the work of the industrial insurance company and there is a separate set of employees for each. We have the ---

- (1) Home office and home office force,
- (2) Branch offices and field force.

The *home office* is the headquarters of the company. The executive officials are located there and the home office is situated in the state under whose laws the company is incorporated. The clerical work of the company is done to a large extent at the home office. Taking a large company as an illustration, we find, for example, in the home office

- (1) Offices of the chief executive officials. Among these offices, may be cited, those of the president, vice-presidents, (each being at the head of a distinct branch or phase of the work), the secretaries, the treasurers, legal advisors, actuaries, statisticians and various other officials and department heads.
- (2) Departments of the home office. Among these departments, we may cite the actuarial, statistical, medical inspection, claims, policy issue, auditing and accounting, agency, treasury, printing, libraries, inspection, welfare and numerous other departments and sub-departments of the business.

The character of the industrial insurance business is such that an



enormous amount of detail, routine and clerical work is required. The offices of the large companies employ as many as 4,000 to 5,000 persons in the home office alone. This requires an enormous amount of space. In fact the home offices often cover many acres of floor space. The industrial policy averages about \$ 135 to \$ 140 while the ordinary policy averages about \$ 2,400. Thus about eighteen times as much field labor and clerical work is necessary to transact an amount of industrial business equal to one ordinary policy, for those factors for which cost is directly proportional to the number of policies. The amount of detail is simply enormous. Thousands of applications come into the home office weekly. These must all be passed on, inspected, recorded and either issued, or rejected. The forms must be filled out and returned to branch offices weekly. An enormous amount of correspondence must be carried with the field force.

Vast amounts of literature, printed pamphlets and hundreds of different kinds of forms for the offices and field men are printed at the home office of a large company and distributed to the field force. Complete records must be kept of the business in the various departments. The actuarial department makes the annual valuations for the millions of policies in force and this department has charge of the determination of the premium rates and various other matters. The statistical department studies the experience of the company in all lines, with the object of improving the business. The whole business is checked, audited and constantly inspected.

The efficiency expert and the man who advocates system considers the home office of a large industrial insurance company, as a striking example of his plans. For there, the expert systematization of labor and efficiency of the division of labor is found to a large extent.

The home office must keep a watchful eye on the network of branch offices





and on the immense field force. It is the nucleus of the system from which radiates the instructions and policies of the company. The systematization of an office of this sort develops the expert in a certain line to his highest point of efficiency. The enormous volume of business transacted enables the company, by means of its specialization and division of labor, to reap all the advantages of the large scale enterprise. The larger the company, the more branches of investigation and operation it is able to conduct; at the same time, the lower is the expense per unit policy. By this high degree of efficiency, the expenses are lowered and are continually being lowered year after year. It is a gradual but sure decrease.

The second division of company organization we have to consider is the field force. The company has in all large cities, branch offices or agency headquarters; one of these being the headquarters of each agency. In order to ascertain in the best way the exact formation and component parts of a field force of a large company, let us take the organization of one of the largest companies as a fair representation of the typical field force. The composition of this field force is as follows, ---

The territory of the United States and Dominion of Canada is divided into certain sections and territories, for convenience and classification, according to the grouping and density of the population and amounts of business in force. Then various officers and sub-officers are placed in charge of these various sections and territories, all of this force being, of course, under some executive official of the home office.

For industrial insurance, the plan of the field force is outlined as follows: ---

A. The Vice President (a home office official)

I. Four groups with Assistant Secretaries in charge.



a. Eight "two-divisions," with supervisors in charge.

1. Sixteen divisions with division managers in charge.

a). Several hundred districts.

1). Sub-districts and organizations, with superintendents in charge, Assistant superintendents, agents.

Inspectors, auditors and other officials, who examine the records and books of the branch offices.

The field over which the industrial insurance company operates is ---

I. Home office.

A. Groups.

1. Divisions.

a. Districts, (agencies).

1). Sub-agencies.

a). Organizations.

The whole field force is in charge of a Vice President, located at the home office. For convenience the whole United States and Canada are divided into four groups ---

1). Northern group,

2). Eastern group,

3). Central group,

4). Western group.

At the head of each group is an assistant secretary. Each group is in turn divided into four divisions. For example, say,

Division B,

Division H,





Division C,

Division Canadian,

compose the northern group. At the head of the division is a Division Manager. Each division is then divided into districts. These districts are usually large cities or parts of the very large cities. At the head of the district is the superintendent. Often the neighboring territory around the city is included under his jurisdiction. In these small towns are sub-agencies or organizations, in charge of an assistant superintendent. The large city district or agency is then divided into assistancies; each in charge of an assistant superintendent. A small town is considered as an assistancy, under the branch office. Each assistant is in charge of a section of a large city. Under him are a number of agents. Each agent has a debit which is a list of policyholders, living in the same section of the city, to look after. This is usually included in a part of the section of the city allotted to the assistant's care. Thus the whole field force is composed of large units subdivided and again subdivided, one step below the other, until an efficient system of administration and control is obtained. Each sub-unit is responsible to the unit above it and in turn that is responsible to the next higher up, and so on until finally the whole is responsible to a vice president, who is the executive head of the whole field force. There are besides, various inspectors and auditors and examiners traveling out of the various executive offices, whose business it is to examine into all the business of the field force.

The other large company has a very similar system of field organization; in fact it is practically identical except for the names of the districts and the names or titles of the officials in charge of them. In this company, the United States and Canada are divided into eight territories; and again





into districts and sub-divisions. A vice president is at the head of the field force. Under him are the supervisors, superintendents of agencies, superintendents, deputy superintendents and agents. Also there are the various inspectors and auditors traveling out of the home offices inspecting and checking the records and conditions of the various agencies.

In the largest companies there are employed in the field work of administration, supervision, soliciting, collecting and inspecting between 30,000 and 40,000 employees. The unit of operation for practical purposes in the field may be taken as the district, or agency with the superintendent as the administrative head. His main work is in the city over which he has charge and also in the surrounding territory and neighboring towns. He is in complete charge of the work in that district. Under him are the assistant superintendents, usually from six to ten, depending upon the size of the agency. Under these assistants are the agents, usually between four and eight for each assistant; generally five or six, again depending upon the size of the agent's territory. The clerical force at the office in the city and also the medical examiners should be included in the list of branch office employees.

Each agent has a debit. On this debit he collects the premiums of the policies in force. The specified time for collecting the debit is the first three days of each week. On Thursday morning he then makes up his weekly account. Thursday afternoon and Friday and also any evening if necessary he solicits new business, or "canvasses for prospects," as it is called. Saturday morning the week's business is concluded and an agent's meeting is usually held, presided over by the superintendent in which instruction and advice are given to the agents and assistant superintendents.

The agent's duties are for the first three days of the week to collect



the premiums from the policyholders on his debit or route. It is done in this fashion. He calls from house to house collecting the premiums. These are credited to the policyholders in the agent's debit book. This is a rather unique device showing the names and ages of all policyholders on his debit; the specifications and particulars of their policies, and the premiums due. A small square space for every week of the year is also included in the book. When the premium is collected, the policyholder is credited with the same in the agent's book and also he places his signature in the premium receipt book, which is kept by the policyholder. Thus a double check is furnished when a claim becomes due; double evidence of payments of premiums exists. Thus the agent collects from house to house and receipts the premiums as he collects. When he has finished his collections he must make out his weekly report. This consists of a minute examination of all payments which he has received. A form is filled out and later turned in to the office showing the amount of advances and arrears on each life register page of his collection book. He further notes the lapses which he has recorded because of the four weeks grace period having expired; the transfers from different debits because of removals and other causes; the revivals; and also any changes or alterations which may become necessary for him to make. These items he must keep account of and all on different forms and blanks provided for this purpose by the company. He then totals up his collections and turns in his cash to the office and provided the books balance satisfactorily, his policy account is concluded for that week and the whole operation is continued or repeated each week. His debit is inspected by the assistant superintendent about every six months to see that everything is in good condition. In this way the agent must keep his account each week and by the very convenient form of collection book which the com-





panies have devised for this sort of work, an immense amount of labor at book-keeping and clerical work is saved. The collection book is one of the important devices which the companies have devised for reducing the immense and almost prohibitive amount of work of the collections to a matter of simple routine of which any new agent can acquire a knowledge in a very short time.

When this function of the agent's work is concluded for the week, he is supposed to canvas for new business. Straight canvassing from door to door in his district is usually advised by the company as this gives the best results in the long run. All the time he must be on the lookout for prospects and he solicits not only for industrial but for ordinary business as well. His main field for ordinary prospects is among the working class, a field left practically untouched by the strictly ordinary companies. This is one of the direct economic advantages of industrial insurance and the whole system of industrial solicitation.

After soliciting an applicant for industrial insurance and the person applies for a policy, the agent seeks the following information from the applicant.

- (1). Full name and address,
- (2). Place and date of birth,
- (3). Weight, height and general physical makeup,
- (4). Presence of chronic diseases,
- (5). Lung trouble,
- (6). Date, length and nature of last illness,
- (7). Questions of hereditary nature,
- (8). Occupation,
- (9). General sanitary conditions of residence,



(10). Morals and habits,

(11). General impressions.

The agent then secures the applicant's signature and the payment for several premiums. If the amount is small the agent may conduct the medical inspection himself; no medical examiner being needed. If the amount or age is higher, then the medical examiner must himself see the applicant and verify the agent's answers to the questions on the application form. This, of course, is done in order to secure a certain amount of selection on the higher amounts so that chronic diseases, mentally and physically deficient ones may be excluded because of their excessive mortality.

The application is then turned in to the office and forwarded to the home office, where it is passed on and the policy issued. The policy is then sent to the branch office and given to the agent. It is then delivered to the applicant and he becomes a policyholder. Thus we have the two chief functions of the agent; to collect premiums and to solicit new business. A successful agent must collect his debit in a satisfactory manner, reporting nearly one hundred percent collections, and is expected to write a certain amount of new business besides.

In the settling of a death claim, when a claim occurs, the office is generally notified and the agent or assistant or even the superintendent will go to the home of the deceased and there have the death claim forms filled out by the beneficiary, witnesses, the undertaker and the physician attending during the last illness. This is done in order to prevent fraud of any kind. The policy is surrendered and the superintendent pays the claim just as soon as the forms can be filled out and signed and the remains identified. Claims are paid with promptness. The companies realize its immense advertising advantages; also the opportunity offered of selling more





insurance at the time a claim is paid, when the emotional attitude is favorable for the selling of insurance and the advantages of insurance are emphasized.

The assistant superintendents have charge of five or six agents. They inspect the debits periodically; make sure, the doubtful prospects for the agents and assist the agents out of any difficulties that may arise. The superintendent has charge of the work of the administration of the district, hiring and discharging the employees of that district. He is the company's representative in that particular locality.

The members of the field force are paid for their services largely on the basis of commissions. The agent is paid fifteen percent on his collections; fifteen times on industrial business (or seventy-five cents on a five cent policy), during his first year; sixteen times, the second; seventeen times, the third; eighteen times, the fourth; nineteen times, the fifth; and twenty times after five years of continuous service with the company. The agents are paid on the basis of increase only, in the industrial business. That is, they are responsible for all lapses. When a policy is lapsed, they must write a new one of equal amount to cover it before they are paid any commissions for new business. The companies do this in order to protect themselves against willful abuse of lapses by the agents. It seems to be the only possible and practical solution to the problem of remunerations. This plan is necessary, or industrial insurance as a system on the present plan could hardly exist. Agents are also paid a commission on the ordinary business they write varying from twenty-five percent to forty-five percent, depending on the form of policy they write. The average agent will perhaps collect an \$ 80.00 debit yielding \$ 12.00 commissions and he will probably write twenty-five cents of industrial business yielding \$ 3.75, and his





ordinary commission will probably average about \$ 2.00 so that the average agent will average about \$ 17.00 to \$ 18.00 weekly. The assistant superintendent is paid a salary depending on the size of the debits of the agents under him plus small commissions on the new business they write. He will average between \$ 20.00 and \$ 25.00. The superintendent receives a salary plus various small commission depending on the increase in his district during the year and his salary or commissions are raised each year he is in service, so that the superintendent will average about \$ 100.00 weekly or between \$ 5,000 and \$ 5,500 annually.

The district managers, supervisors, and assistant secretaries are paid on a salary basis depending on their length of service and general efficient past records.

The agents are inspected by the assistants at least once in a year, usually several times yearly. The assistants are inspected by the superintendents. The work of districts, both the industrial and ordinary business, the financial and clerical work of the office, is inspected frequently and quite unexpectedly by inspectors from the various home offices of the different home office departments. The records are all checked; the finances checked and the books audited and thoroughly inspected. Accurate statistical records are kept so that the home office knows accurately what every district, division and group is doing; what their records are in the matter of increase; lapses; renewals and the minutest details of its peculiarities in selling efficiency; collections and all the routine in the conduct of the business. It is necessary that this thorough inspection system be maintained in order to preserve uniformity and regularity in the conducting of the company's business.

Thus we see that the men of the field forces of our large industrial



insurance companies must be men of considerable business ability. They must be alert and attentive at all times; keen to grasp business opportunities. They must have a certain degree of personality that will retain a steady clientage, so that after years of service, they have a considerable debit of enthusiastic supporters of the company and its policies and methods. In course of time they must learn a considerable amount of clerical work and book-keeping. They must possess qualities of a successful salesman, or else they will be very inefficient and unsuccessful solicitors of new business. But above all they must practice honesty and integrity and must be representative citizens in their community. The companies desire this and realize its advantages. Every business dealing must be straight-forward. They must be able to meet competition fairly. All underhand methods of "twisting" business and downing the policies of other companies are forbidden. The companies realize that good business methods always pay best in the long run. The claim is often made by those acquainted with the real condition of affairs, that the agent is overpaid. In fact he is underpaid. The companies themselves admit it. Yet they are very loathe to increase the expenses any further on the industrial plan of insurance. Expenses are high enough as it is. To be a successful industrial insurance agent requires more ability and training than \$ 17 a week would indicate. Likewise with the whole field force, but especially is this true of agents. The agent is the life of the business. All plans to eliminate the agent have thus far been unsuccessful.

The companies have now various plans of relief to agents, having been in the service of the company for a number of years and having a clean honorable record of good service and efficiency. This applies to assistants and other field employees as well and takes the form of either a weekly or monthly pension after discontinuance of service, or else some other equally bene-







ficient plan of relief. Some large companies also maintain sanatoriums and free hospitals for tubercular and other invalidated employees. There are various organizations for the field and office forces to which the employees are entitled to membership after a certain length of service, usually in five year periods and multiples thereof. This lends a stability and dignity to the profession and tends to instill in the young agent's mind the idea of permanence and a long efficient service.



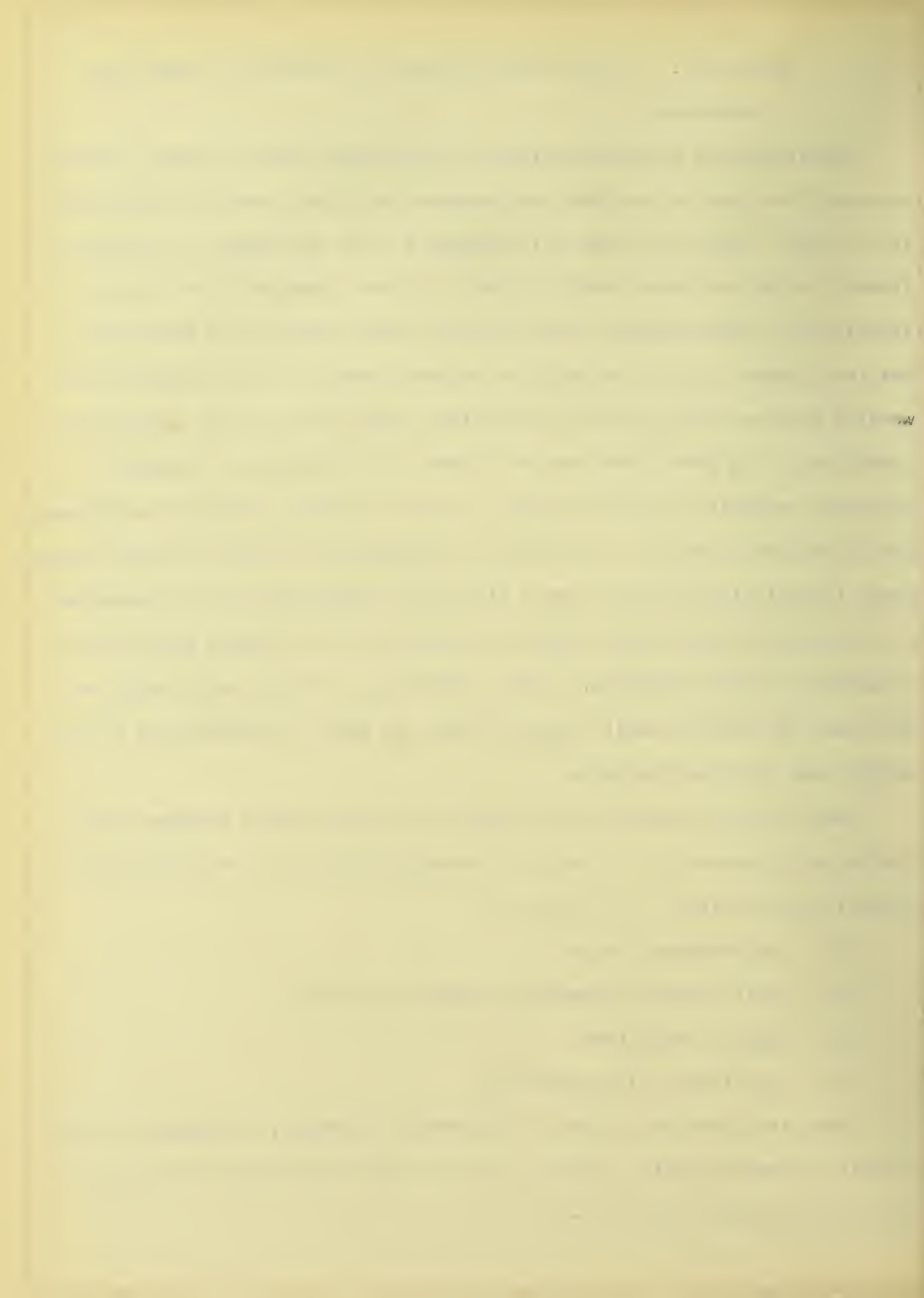
## SECTION II. *Styles and Provisions of Policies of Industrial Insurance.*

The industrial insurance policy at the present time is a very different contract from that in use when the business was first started in this country in 1875. Then the industrial contract was not so simple in its form or liberal in its provisions as it is now. It then contained restrictions limiting its effectiveness, usefulness and real benefits very materially. Now the standard form of policy is a document easy to read, simple in its wording and free from technical and hidden details which would curtail its provisions. The provisions are now liberal in the matters of payment of premiums, revivals in case of lapse, surrender values, residence and disease provisions, and further in the matter of occupation and army and navy classes. These liberalities have come about slowly and voluntarily on the companies' part, when experience showed that the security of the company would not be endangered by their adoption. These provisions, in large part, later became law, so that the small companies must now meet the competition of the larger ones in these respects.

The industrial contract is a brief and plainly worded contract fully within the understanding of people of average intellect. The policy may be divided into sections, as follows ---

- (1) Introductory clause,
- (2) Qualifications concerning payment of claims,
- (3) Special conditions,
- (4) Privileges and concessions.

There are three main kinds of industrial insurance, transacted for the benefit of the industrial classes by the private companies in the United States and Canada. They are ---



- (1) Adult industrial insurance,
- (2) Children's or infantile insurance,
- (3) Intermediate insurance.

Adult insurance is industrial insurance based on the standard and sub-standard Tables of Mortality in this country (from the experience of the Metropolitan Company) on the lives of adults. In industrial insurance persons over ten years of age, for purposes of classification, are regarded as adults. The kinds of industrial insurance now written on adults by the large companies may be said to include only a few forms. The experience of the companies has shown that what is demanded is either a straight life policy or some simple form of limited payment life policy. The companies have conformed to this experience and now issue three or four standard forms of policies.

The Metropolitan rate book now gives rates for the following cases:

- (1) Adult whole life policy.

Payment of premium ceases on the first anniversary of the date of issue after the insured reaches the age 74. One-half the benefits only are payable if death occurs within six calendar months from the date of the policy, and the full amount if death occurs thereafter.

- (2) Adult twenty year endowment.

Matures as an endowment twenty years from the date of issue; with the benefits, one-half payable in the first six months and full amount thereafter.

- (3) Adult twenty-five year endowment.

Matures twenty-five years from date of issue as an endowment; with the above restrictions on benefits.





(4) One hundred dollar life insurance and one hundred dollar annuity.

The insurance continues during the whole of life, but is free of premiums after age 65, at which time an annuity commences. Under this form of insurance, each policy will be for insurance of \$ 100 during life, premiums ceasing on the first anniversary of the date of policy after the insured reaches age 64, at which time an annuity of \$ 100 will begin; insurance however continues thereafter during life, and in addition thereto the annuity is paid annually until death. This annuity may be \$ 100, paid at the beginning of each year, or the \$ 100 may be paid in quarterly installments of \$ 25 each, as desired by the policyholder. If at date of death any installments of the annuity for the current year remain unpaid, the amount of such unpaid installments will be paid in addition to the insurance of \$ 100. If insurance and annuities for larger amounts are desired these premiums may be multiplied by two, three, or four for insurance combined with annuities of \$ 200, \$ 300 and \$ 400 and so on.

(5) Adult endowment payable at death or at age eighty.

Policy matures as an endowment on the first anniversary of the date of issue after the insured reaches age 79. One-half benefits payable if death occurs in first six months after date of issue of policy, full benefits payable if death occurs after six months.

(6) Convertible life policy.

A policy providing that for a certain additional successive period, (at the option of the insured, and when the life policy



shall have become a paid-up policy payable at death), premiums are required to convert it into a fully paid-up endowment for a like sum, payable when the insured reaches the desired age or at death. In other words this policy provides for the conversion of a straight life paid-up into a paid-up endowment maturing at the desired age or at death.

Hence we have the simple standard forms of life and endowment policy. Policy forms are issued by the Metropolitan Company including

- (1) The life policy,
- (2) Endowment policy (payable on date of policy after age 79),
- (3) Twenty year endowment,
- (4) Twenty-five year endowment,
- (5) Life with annuity policy.

The standard privileges and concessions to policyholders which the Metropolitan grants at the present time are ---

- (1) An option to surrender within two weeks. If the terms of the policy are not satisfactory or if its conditions are not accepted or agreed to, the policy may be surrendered for cancellation at the office of the superintendent of the district within two weeks from the date thereof; and if so surrendered within said period the premiums paid thereon will be refunded.
- (2) An allowance for direct payment of premiums. Should the weekly premiums on the policy be paid direct to the home office, or to a district office, without cost to the company for the period of one year, the company will, at the expiration of such year, pay to the policyholder a sum equal to the percent of of the year's premiums so paid, and thereafter upon further





payments in the same way the company will make, at intervals fixed by the company, a similar rate of allowance to the policyholder.

- (3) Incontestability. The policy shall be incontestable after one year except for fraud or misstatement of age.
- (4) Grace period. A grace of four weeks shall be granted for the payment of every premium after the first, during which time the insurance shall continue in force. If death occur within the days of grace, the overdue premiums shall be deducted from the amount payable thereunder, but neither this concession nor the acceptance of any overdue premium shall create an obligation on the part of the company to receive premiums which are in arrears over four weeks.
- (5) Revival. Should the policy become void in consequence of non-payment of premium, it may be revived, if not more than fifty-two premiums are due, upon the payment of all arrears and the presentation of evidence satisfactory to the company of the sound health of the insured.
- (6) Change of beneficiary. Subject to the approval of the company, the insured at any time during the continuance of the policy, provided the policy be not then assigned, may change the beneficiary or beneficiaries, by written notice to the company at its home office, accompanied by the policy, such change to take effect on the endorsement of the same on the policy by the company.
- (7) Accidental death. In the event of the death of the insured from accident within six months of the date of the policy, the full



amount of the insurance named in the schedule will be paid subject to the policy conditions.

These are the standard concessions and privileges of the companies at the present time on all industrial policies.

The Prudential Company of Newark, New Jersey, exhibits rates for similar standard policies to those of the Metropolitan. In fact both are based on the "Standard and Sub-standard Tables of Mortality" at three and one-half percent interest. Their Adult Industrial Policies at the present time are -

(1) Life Policy.

Premiums cease at age 75;

Policy is payable at death only;

One-half benefit first six months; full benefit after six months.

(2) Five Hundred Dollar Adult Life Policy.

The same as the industrial life policy above, except that the premiums weekly are adjusted to the \$ 500 benefit at all ages fourteen to fifty inclusive; instead of the benefit being graded to the premium weekly on the five-cent unit.

(3) Twenty-year Endowment Policy.

Policy is payable at the end of twenty years or at previous death. One-half benefit first six months; full benefit after six months.

(4) Twenty-payment Life Policy.

Policy payable at death. Premiums continue for twenty years after date of issue.

(5) Weekly Income Policy.

For ages sixteen to sixty-five inclusive. Premiums terminating





at age 75. Instead of the benefits being paid in a lump sum at the death of the insured as is done in the Adult Life Policy, the benefit is paid in weekly installments of thirteen to twenty-six weeks duration. This policy is a new departure in the matter of the payment of benefits on industrial policies. It is designed, of course, to be written in conjunction with any standard form. The policy otherwise has the standard policy provisions of the company. It was felt that this policy would fill an important need in carrying the unfortunate family over the first period of non-income to the family. The life policy will pay the funeral expenses and physicians bills and this policy will support the family for the first few weeks until they can adapt themselves to the new conditions, economically speaking.

This list comprises the usual forms written by the large companies. The limits are usually from ten to sixty-five inclusive, on adult industrial risks. Most of the policies are written between these ages with certain exceptions which we have noted.

The industrial insurance contract as it exists today is written in a certain standard form which differs but slightly among the various companies. The chief provisions, terms and concessions are alike in all the forms. Let us take an "*Industrial Whole Life Policy*" of one of the largest companies as an illustration.

*The Prudential Insurance Company of America.*

In consideration of the payment of the weekly premium herein specified, on or before each and every Monday during the continuance of this policy or until the person herein designated as the Insured shall reach the age of seventy-five years,





The Prudential Insurance Company of America immediately upon receipt of due proof of the death of the Insured during the continuance of this policy, will pay at its Home Office, Newark, New Jersey, the amount of benefit herein specified, to the executors or administrators of the Insured, unless payment be made under the provisions of the next succeeding paragraph.

*Facility of Payment.* It is understood and agreed that the said company may make any payment or grant any non-forfeiture privilege provided for in this policy to any relative by blood or connection by marriage of the Insured, or to any person appearing to said company to be equitably entitled to the same by reason of having incurred expense on behalf of the Insured, for his or her burial, or, if the Insured be more than fifteen years of age at the date of this policy, for any other purpose, and the production by the Company of a receipt signed by any or either of said persons or of other sufficient proof of such payment or grant of such privilege to any or either of them shall be conclusive evidence that such payment or privilege has been made or granted to the person or persons entitled thereto, and that all claims under this Policy have been fully satisfied.

*Preliminary Provision.* This Policy shall not take effect if the Insured die before the date hereof, or if on such date the Insured be not in sound health, but in either event the premiums paid hereon, if any, shall be returned.

#### *Schedule.*

- (1) Name of Insured.
- (2) Age next birthday.
- (3) Amount of benefit.
- (4) Weekly premium.

If the Insured shall die within six months from the date hereof, the amount of the benefit will be reduced one-half.

#### *Provisions.*

*Payment of Premiums.* All premiums are payable at the Home Office of the Company, but may be paid to an authorized representative of the Company; such payments to be recognized by the Company must be entered at the time of payment in the Premium Receipt Book belonging with this Policy. If for any reason the premium be not called for when due it shall be the duty of the policyholder, before said premium shall be in arrears four weeks, to bring or send said premium to the Home Office of the Company or to one of its district offices.

*Policy when Void.* This Policy shall be void if there be upon the life



of the Insured an Industrial Policy previously issued by this Company, unless the policy first issued contains an endorsement, signed by the President or the Secretary, authorizing this Policy to be in force at the same time; or if the Policy be assigned; or if the said weekly premium shall not be paid according to the terms hereof; or if the person insured under this Policy is already insured under any policy or policies issued by this or any other Company, and if the amount of insurance payable at the death of the Insured under such policy or policies, when added to the insurance payable under this Policy, shall exceed the amount fixed by the following table:

Age next birthday at time of death	2	3	4	5	6	7	8	9
Limit of insurance allowed for that age	\$30	34	40	48	58	140	168	200

10	11	12	13	14	15	16	17	18	19	20	21
240	300	380	460	520	520	520	612	700	784	855	930

If for any cause this Policy be or become void, all premiums paid hereon shall become forfeited to the Company except as provided herein.

*Modification.* No condition, provision or privilege of this Policy can be waived or modified in any case except by an endorsement hereon signed by the President, one of the Vice Presidents, the Secretary, one of the Assistant Secretaries, the Actuary, the Associate Actuary or one of the Assistant Actuaries. No modification or change shall be made on this Policy except such as is in accordance with the law of the State in which the same is issued. No agent has power in behalf of the Company to make or modify this or any other contract of Insurance, to extend the time for paying a premium, to waive any forfeiture, or to bind the Company by making any promise, or by making or receiving any representation or information.

*Misstatement of Age.* If the age of the Insured be misstated the amount payable under this policy shall be such as the premium would have purchased at the correct age.

#### *Privileges.*

*Period of Grace.* Should the Insured die while the premium on this policy is in arrears for a period not exceeding four weeks, the Company will pay the amount of benefit provided herein, subject to the conditions of the Policy, but after the expiration of the said period of grace, the Companies liability under this policy shall cease, except as herein provided.

*Revival of Policy.* If this Policy lapse for non-payment of premium, it will be revived within one year from the date to which premiums have been





duly paid upon payment of all arrears, provided evidence of the insurability of the insured satisfactory to the Company be furnished, for such revival shall not take effect unless at the date thereof the Insured is living and in sound health.

*Incontestability.* If the insured shall die one or more years after the date hereof, and if all due premiums shall have been paid, this policy shall be incontestable.

#### *Non-Forfeiture Privileges.*

If this Policy lapse for non-payment of premium after premiums have been duly paid for three full years, the Insured, without any action on his or her part, will become entitled to extended insurance for the respective term indicated in the following schedule; the amount of insurance payable if death occur within said period shall be the same amount as that which would have been payable if this Policy had been continued in force, or, in lieu thereof, the insured may surrender the Policy within three months after such lapse and will then be entitled to his or her option either to receive a Paid-up Life Policy or payment in cash as specified in such schedule; provided, however, that if there be any indebtedness under this policy, such indebtedness shall be deducted from the Cash Surrender Value or the term of the Extended Insurance or the amount of Paid-up Life Policy will be reduced to such term or amount as the net single premium value of the respective privilege reduced by such indebtedness shall provide according to the Mortality Table hereinafter specified.

Tables of ---

- (1) Extended Insurance values allowed.
- (2) Paid-up Life Policy.
- (3) Cash Surrender.

The surrender values of this Policy are based upon the Standard Industrial Mortality Table with three and one-half percent interest per annum, and the net value of any such surrender value, for the first nineteen years, is at least equal to the entire reserve on this Policy, according to the foregoing standard less a percentage (not more than two and one-half percent) of the amount insured by the policy; thereafter, such net value is the entire net reserve by said standard.

In computing benefits from the foregoing tables, due allowance will be made for each completed quarter of a year's premiums paid over and above the full number of year's premiums indicated.

This Policy contains the entire contract between the parties thereto.



In Witness Whereof, the President and the Secretary of said Company have signed this Policy at its Home Office in the City of Newark, New Jersey on the above date.

\_\_\_\_\_(Signature)\_\_\_\_\_ Secretary.   \_(Signature)\_\_\_\_\_ President.

This policy if not satisfactory to the Insured, may be surrendered within two weeks after its date at the Home Office of the Company, the address of which appears on the Premium Receipt Book accompanying this policy, and the premiums paid hereon will be returned.

The following are tables (for five cents weekly) on

- (1) Adult Whole Life Policy.
- (2) Adult Twenty-year Endowment Policy.

These give (1) Free Policy Values and (2) Cash Surrender Values under Industrial Policies from the Metropolitan Rate Book:--

#### Free Policy Values:

After premiums have been fully paid for the periods named in these tables, then in case of default of the payment of any subsequent premium the Company will, without action on the part of the holder, continue the policy as a Free Policy, payable on the same conditions as the original policy, but upon which no further payment of premiums shall be required, for a reduced amount in accordance with the following tables:

#### Cash Surrender Values:

After premiums have been fully paid for the periods named in these tables, upon written application to the Company, made upon blanks furnished by the Company, accompanied by the surrender of the Policy and all Receipt Books or other evidence of payment of premium, the Company will pay a Cash Surrender Value in accordance with the following tables:



Free Policy Values (For five cents weekly) Adult Whole Life Policy

[illegible]





*Free Policy Values* (For five cents weekly) *Adult Twenty-year Endowment*

Age 3 yrs	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
10	\$ 7	10	13	15	18	21	23	25	28	30	32	34	36	38	40	42	44
15	7	9	12	14	17	19	22	24	26	28	30	32	34	36	38	40	42
20	6	8	11	13	16	18	20	22	24	26	29	31	33	34	36	38	40
25	6	8	10	12	15	17	19	21	23	25	28	30	32	33	35	37	39
30	6	7	10	12	14	16	18	21	23	25	27	29	31	33	34	36	38
35	5	7	9	12	14	16	18	20	22	24	26	28	30	32	33	35	37
40	5	7	9	11	13	15	17	19	21	22	24	26	28	30	32	33	35
45	5	6	8	10	12	14	16	17	19	21	23	24	26	28	30	31	33
50	4	6	7	9	10	12	14	15	17	18	20	21	23	24	26	28	29
51	4	5	7	9	10	12	13	15	16	18	19	21	22	24	25	27	28
52	4	5	7	9	10	12	13	15	16	17	19	20	22	23	25	27	28
53	4	5	7	8	10	11	13	14	15	17	18	20	21	23	24	26	27
54	4	5	6	8	9	11	12	13	15	16	18	19	20	22	23	25	26
55	4	5	6	8	9	10	12	13	14	16	17	18	19	21	22	24	26



*Cash Surrender Values**(For five cents weekly)**Whole Life Policy*

Age 10yrs	11	12	13	14	15	16	17	18	19	20	
10	\$11.69	12.79	13.87	14.94	16.25	17.57	18.90	20.23	21.57	22.92	23.02
15	9.90	10.83	11.77	12.76	13.94	15.13	16.34	17.56	18.81	20.10	24.55
20	8.35	9.20	10.07	11.08	12.22	13.40	14.61	15.86	17.14	18.46	22.44
25	7.81	8.69	9.74	10.90	12.09	13.31	14.57	15.85	17.17	18.51	22.14
30	8.10	9.26	10.45	11.67	12.92	14.20	15.50	16.83	18.19	19.56	22.94
35	8.84	10.04	11.26	12.50	13.77	15.05	16.36	17.69	19.04	20.40	23.49
40	9.30	10.49	11.69	12.92	14.16	15.42	16.69	17.98	19.28	20.59	23.34
45	9.54	10.70	11.87	13.06	14.26	15.48	16.70	17.94	19.20	20.47	22.93
50	9.60	10.73	11.88	13.03	14.21	15.40	16.62	17.86	19.14	20.47	22.80
55	9.68	10.82	11.99	13.19	14.44	15.75	17.14	18.63	20.24	22.03	24.79
60	9.87	11.16	12.54	14.05	15.73	18.18	18.37	18.56	18.73	18.90	19.07
65	13.22	13.36	13.49	13.62	13.75	13.87	13.98	14.09	14.19	14.29	14.39
70	7.80	7.86	7.93	7.98	8.04	8.09	8.14	8.19	8.24	8.28	8.32

*Cash Surrender Values**(For five cents weekly)**Adult Twenty-year Endowment*

Age	10yrs	11	12	13	14	15	16	17	18	19
10	\$13.22	20.51	22.89	25.36	27.93	30.60	33.39	36.29	39.33	42.50
15	17.20	19.39	21.66	24.03	26.50	29.08	31.78	34.59	37.54	40.64
20	16.07	18.16	20.35	22.63	25.02	27.52	30.13	32.87	35.75	38.76
25	15.44	17.49	19.64	21.88	24.24	26.70	29.28	31.98	34.82	37.81
30	14.94	16.95	19.04	21.24	23.54	25.94	28.47	31.13	33.92	36.87
35	14.55	16.49	18.52	20.65	22.88	25.22	27.63	30.28	33.02	35.92
40	13.79	15.61	17.52	19.52	21.62	23.83	26.16	28.63	31.25	34.05
45	13.02	14.72	16.50	18.36	20.32	22.39	24.58	26.93	29.44	32.15
50	11.53	13.00	14.54	16.15	17.85	19.66	21.59	23.67	25.93	28.42
55	10.07	11.31	12.59	13.94	15.37	16.89	18.54	20.35	22.37	24.66





The next type or class of industrial insurance that we consider is *infantile insurance*. This form is written on ages one to nine inclusive. It is the most widely discussed form of industrial insurance, perhaps, and has aroused public attention and influenced legislative bodies the most of any of the forms. This has been due to the fact that it was the latest form to justify itself in the eyes of the public and of the law-makers. The moral side of the question has been raised and discussed. The following charges have been made against it from time to time; namely, that terrible crimes of infanticide have been committed because of the insurance money; that child neglect and starvation have resulted; that it was contrary to public welfare; and that it was so expensive that it took the laborer's hard earned money from channels of food and other necessities to pay for this, which in reality was an economic waste. These charges which were for the most part false and based on prejudice and ignorance of the facts of the situation were later dispelled and disproved. Officials of charitable organizations and others who considered the welfare of the laboring people; but who were misinformed about the situation, brought these charges before state legislatures at different times and endeavored to have legislation put into effect which would prohibit the business. In the various states where bills were brought up, they were thrown out as soon as the legislatures learned the facts of the case. Ever since those early days the business has grown and developed, until now it is a very essential part of the industrial insurance business. Public sentiment has been much changed and the attitude of the press and legislation is strongly in favor of the system; with the proper safeguards and restrictions to prevent abuse.

Children of the industrial classes have insurance on their lives for the same economic reasons that the other members of the family are protected,



but the amount of insurance which the companies are allowed to place on any one life should be restricted and limited in amount, so as to do away with all cause for crime and immoral conduct on the part of the unscrupulous and depraved. The amount on any one child's life is now limited by the New York Insurance Law of 1892 (paragraph 55). The amount increases with the age and is ---

- (1) between ages 1 and 2 -- \$ 30
- (2) between ages 2 and 3 -- \$ 34
- (3) between ages 3 and 4 -- \$ 40
- (4) between ages 4 and 5 -- \$ 48
- (5) between ages 5 and 6 -- \$ 58
- (6) between ages 6 and 7 -- \$ 140
- (7) between ages 7 and 8 -- \$ 163
- (8) between ages 8 and 9 -- \$ 200
- (9) between ages 9 and 10 -- \$ 240.

All cause for action contrary to public welfare is removed. At ages one to six the benefit is not sufficient to pay for the funeral expenses. When the child grows older there are sufficient benefits for expenses and a small amount besides.

The ratio of industrial insurance among the different ages corresponds very closely to the distribution of population with respect to ages as shown by the United States Census. The following table (taken from an article by F. L. Hoffman in his "Insurance of Children", 1903), shows the correspondence in question:





Ages	Percentage of population 1900 census	Percentage of Prudential Policyholders for 1903
2 to 3 years	2.5 percent	1.9 percent
3 to 4 years	2.5 percent	2.2 percent
4 to 5 years	2.5 percent	2.3 percent
5 to 9 years	12.3 percent	12.1 percent
10 to 14 years	11.2 percent	11.9 percent
Total under 15	31.0 percent	30.4 percent
Over 15 years	69.0 percent	69.6 percent

The average amount of claims for children were found to be:

Age of death	Average amount of claim
2 years	\$ 12.84
3 years	21.13
4 years	25.53
5 years	29.73
6 years	35.27
7 years	50.73
8 years	76.29
9 years	96.55

Average of one to nine years inclusive \$ 30.00

Average for over ten years of age of industrial policy \$ 154.00.

The mortality curve is such that it makes a bend or turn at about age ten. At younger ages than this the mortality is decreasing as we increase the age to ten years, after that it is increasing as we increase the years of age; so that the infantile insurance is term insurance, renewable term





insurance. The benefits increase every year older that the child gets from age one to ten, instead of decreasing as they would in renewable term insurance if the same premium were paid year after year after age ten.

The companies have several forms of infantile policy which are now issued with a view to leading up to an adult policy, an intermediate policy or an ordinary policy if the income becomes sufficiently large, when the child becomes older.

The forms issued by the companies at the present time include only several kinds. The Metropolitan's infantile policies are ---

(1) Infantile Whole Life Policy.

Payment of premium ceases on first anniversary of the date of issue after the insured reaches age 74.

The amount payable provided death occurs after policy has been in force for certain periods of time, increases as the periods increase up to age ten. Then the benefit remains the same.

Premiums of five cents are all that will be taken.

(2) Young People's Twenty-year Endowment Policy.

Matures as an endowment twenty years after date of issue. No higher premium than ten cents will be taken on this form and the same principle applies as regards benefits as in the above form.

(3) Infantile Endowment Payable at death or Age 80.

Policy matures as an endowment on first anniversary of date of issue after the insured reaches age 79.

No higher premium than five cents is taken.

(4) Convertible Life Policy; Infantile.

Additional successive periods are given in this form in which



premiums are payable and required by this policy, after this policy shall have become a free policy, payable at death, to convert it into a fully paid-up endowment for a like sum, payable when the insured reaches the corresponding age specified or at prior death.

The Prudential Infantile Policies, which that company now issues are ---

(1) Infantile Life Policy.

Policy payable at death only.

Premiums cease at age 75.

Weekly premiums of three and five cents only are received.

(2) Infantile Twenty-year Endowment Policy.

Premiums continue for twenty full years after date of issuance of policy.

Policy then matures as any ordinary twenty-year endowment.

Premiums of ten cents are payable; no higher.

(3) Infantile Endowment.

Premiums payable until the fiftieth birthday of the insured.

Benefits payable at death or policy matures as an endowment at the twenty-fifth birthday, or the fiftieth birthday for certain specified amounts.

Premiums of ten cents are payable; no higher.

These policies comprise the standard infantile forms now issued by the leading American companies today. There are deviations of those among the smaller companies, but these are the standard types and the large amount of infantile insurance in this country is of these forms.

The third form of insurance policy issued by the companies for the industrial classes, while not strictly industrial insurance is yet a form of





insurance for the industrial classes; the better element of the working class. It is designed to meet the needs of those who can afford more than the small industrial policy and yet are not able to meet the premium payments of the ordinary forms. It is designed for the industrial class primarily, so the Standard Table of Mortality is used, but the premiums are payable as in the ordinary forms. There is a saving of collection expenses over the industrial forms. Thus we have in reality, insurance based on industrial mortality and the plan of payment based on ordinary forms, thus giving the workingman a chance to approach the advantages of the ordinary forms and still have an insurance policy of smaller amount than the standard \$ 1,000 policy. Policies in the intermediate forms are generally based on unit benefits of \$ 250, \$ 500, and \$ 750 instead of unit premiums as in the industrial forms.

The styles and provisions of intermediate policies issued by the Metropolitan Company at the present time are along plans similar to the ordinary policies. In reality, they seem to be nothing but fractional ordinary policies in all but the fact that they are based on another mortality table, the Standard Intermediate Mortality Table, while ordinary business is based upon the American Experience Table of Mortality.

Their Intermediate policies are ---

On the basis of \$ 500.00. (Premiums payable annually, semi-annually and quarterly).

- (1) Whole Life, (ages eighteen to sixty-five, inclusive).
- (2) Ten-payment Life, (ages eighteen to sixty-five, inclusive).
- (3) Fifteen-payment Life, (ages eighteen to sixty-five, inclusive).
- (4) Twenty-payment Life, (ages eighteen to sixty-five, inclusive).
- (5) Ten-year Endowment, (ages twelve to sixty-five, inclusive).



- (6) Fifteen-year Endowment, (ages twelve to sixty-five, inclusive).
- (7) Twenty-year Endowment, (ages twelve to sixty-five, inclusive).
- (8) Limited-Payment Life \$ 500.00 with Deferred Annuity \$ 100.00, (ages twelve to fifty, inclusive).

The usual provisions or options of settlement prevail in these forms, the same as in the ordinary policies.

The Prudential policies now issued are on the basis of \$ 500.00 and \$ 750.00. (Premiums payable annually, semi-annually, and quarterly).

- (1) Whole Life, (ages twenty to sixty-five, inclusive).
- (2) Ten-payment Life, (ages twenty to sixty-five, inclusive).
- (3) Fifteen-payment Life, (ages twenty to sixty-five, inclusive).
- (4) Twenty-payment Life, (ages twenty to sixty-five, inclusive).
- (5) Ten-year Endowment, (ages twelve to sixty-five, inclusive).
- (6) Fifteen-year Endowment, (ages twelve to sixty-five, inclusive).
- (7) Twenty-year Endowment, (ages twelve to sixty-five, inclusive).
- (8) Joint Intermediate (on two lives), (ages twenty to sixty, inclusive).
- (9) Joint Twenty-payment Life (on two lives), (ages twenty to fifty-five, inclusive).
- (10) Joint Twenty-year Endowment, (ages twenty to fifty-five, inclusive).

The range of ages insured vary for each form of policy under consideration. This, for example is true of range of ages among various industrial policies; intermediate policies and children's policies. But the general limits stand out dividing infantile from adult industrial insurance. This is the ten year mark. All below are infantile policies, all above are adult policies. Intermediate policies are all adult policies. Children policies





start at age one and continue to age nine\*; adult policies are from age ten to age sixty-five inclusive. Intermediate policies, depending on the form, are from either age twelve, eighteen or twenty to ages fifty, fifty-five or sixty-five years.

The limitations on the benefits are uniformly one-half benefits during the first six months after date of issue of the policy, (except in Prudential Weekly Income policy; which has full immediate benefits); and full benefits after the first six months. Benefits increase up to age ten and from then on, are constant, due to the nature of the mortality table.

Risks involved vary with the form of insurance. Industrial risks are the freest in the matter of examination and selection; intermediate risks are next and ordinary risks are more thoroughly examined; the degree of thoroughness even there, depending on the amount of insurance, the applicant desires.

In the Prudential Company, all industrial applications below \$ 300 may now be medically inspected by the agent alone, without a medical examiner seeing the applicant. This is accomplished by merely the questions on the application form being answered and the applicant appearing satisfactory to the agent. This applies to all ages below fifty years. For fifty years and above, the agent may medically inspect the risk up to \$ 150. For all amounts above \$ 300 and (for ages of fifty years or above), for all amounts over \$ 150, the medical examiner must inspect or examine the risk by himself, personally visiting the applicant and noting his conditions and his surroundings.

The Prudential further has an intermediate medical examination for all

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\*The Prudential, March, 1915, changed the age of entry of infants. They now insure from birth, instead of from age one.





intermediate applicants and then an ordinary examination for ordinary risks.

In the Metropolitan Company the medical examiner must see all industrial risks, however small. He conducts an inspection in all cases under \$ 300. For over \$ 300, he conducts an industrial examination. There is an intermediate examination for that class of risks; also an ordinary examination for all ordinary risks, varying in thoroughness according to the amount applied for.

In conclusion it seems to be a fair inference that the industrial contract is a contract unique in character; simple in form; liberal in provisions; and yet effective and elastic enough to meet the different grades of conditions and classes of industrial risks.



### SECTION III. *Premiums of Industrial Insurance.*

The premium rates of the American industrial companies are based upon the Standard, Sub-standard and Standard Intermediate Mortality Tables at three and one-half percent, interest. These tables are from the experience of the Metropolitan Life Insurance Company on its industrial risks. These mortality tables show different mortality rates. They occur in the following order, in regard to the lowness of mortality rates of each.

- (1) American Experience Table -- for ordinary risks (giving lowest rate).
- (2) Standard Intermediate Table -- for intermediate risks.
- (3) Standard Table -- for industrial risks.
- (4) Sub-standard Table -- for substandard industrial risks.

The net premiums for industrial insurance are computed on the above basis, and are then loaded a certain amount or percentage for the expenses of conducting the business. The net premium has three distinct parts.

- (1) Natural premium, providing for yearly mortality.
- (2) Reserve, providing for the future liability due to the fact that the premium is a level one and the mortality increases with increasing ages.
- (3) Expense portion or loading on net premium.

Adult industrial insurance premiums are computed according to the actuarial principles of level premium, legal reserve insurance, and are computed in the same fashion that the ordinary premiums are. Due allowance is made for the payment of premiums weekly instead of annually and semi-annually, and for the other necessary modifications of this form of insurance.

Children's insurance is renewable term insurance up to age ten and thereafter it is the same as adult insurance. This is due to the mortality





of the various ages decreasing from age one to age ten and then increasing from about age ten to the end of the table. For the sake of simplicity and convenience premiums are left unchanged and the benefits are increased from age one to age ten and then remain the same from that age on to the expiration of the policy.

Intermediate premiums are computed on the same actuarial principles and basis that the ordinary life insurance premiums are.

The following tables taken from representative rate books, show the benefits for the corresponding weekly premiums for the

- (1) Adult Whole Life Policy, (ages ten to sixty-five years, inclusive).
- (2) Adult Twenty-year Endowment Policy, (ages ten to fifty-five years, inclusive).
- (3) Infantile Whole Life Policy, (ages two to nine years, inclusive).
- (4) Young People's Twenty-year Endowment Policy, (ages two to nine years, inclusive).



## Adult Whole Life Table.

Age next birthday	Benefits payable for the following weekly premiums											
	5¢	10¢	15¢	20¢	25¢	30¢	35¢	40¢	45¢	50¢	55¢	60¢
10	\$ 150											
11	145	290										
12	140	280										
13	135	270	405									
14	130	260	390	520								
15	125	250	375	500								
16	120	240	360	480								
17	116	232	348	464	580							
18	112	224	336	448	560	672						
19	108	216	324	432	540	648	756					
20	105	210	315	420	525	630	735	840				
21	102	204	306	408	510	612	714	816	918			
22	99	198	297	396	495	594	693	792	891	990	1089	1188
23	96	192	288	384	480	576	672	768	864	960	1056	1152
24	93	186	279	372	465	558	651	744	837	930	1023	1116
25	90	180	270	360	450	540	630	720	810	900	990	1080
26	88	176	264	352	440	528	616	704	792	880	968	1056
27	86	172	258	344	430	516	602	688	774	860	946	1032
28	83	166	249	332	415	498	581	664	747	830	913	996
29	81	162	243	324	405	486	567	648	729	810	891	972
30	79	158	237	316	395	474	553	632	711	790	869	948
31	76	152	228	304	380	456	532	608	684	760	836	912
32	74	148	222	296	370	444	518	592	666	740	814	888
33	72	144	216	288	360	432	504	576	648	720	792	864
34	70	140	210	280	350	420	490	560	630	700	770	840
35	68	136	204	272	340	408	476	544	612	680	748	816
36	66	132	198	264	330	396	462	528	594	660	726	792
37	63	126	189	252	315	378	441	504	567	630	693	756
38	61	122	183	244	305	366	427	488	549	610	671	732
39	59	118	177	236	295	354	413	472	531	590	649	708
40	57	114	171	228	285	342	399	456	513	570	627	684
41	55	110	165	220	275	330	385	440	495	550	605	660
42	53	106	159	212	265	318	371	424	477	530	583	636
43	51	102	153	204	255	306	357	408	459	510	561	612
44	49	98	147	196	245	294	343	392	441	490	539	588
45	47	94	141	188	235	282	329	376	423	470	517	564
46	45	90	135	180	225	270	315	360	405	450	495	540



*Adult Whole Life Table, (Continued).*

Age next birthday	Benefits payable for the following weekly premiums											
	5¢	10¢	15¢	20¢	25¢	30¢	35¢	40¢	45¢	50¢	55¢	60¢
47	\$ 43	86	129	172	215	258	301	344	387	430	473	516
48	42	84	126	168	210	252	294	336	378	420	462	504
49	40	80	120	160	200	240	280	320	360	400	440	480
50	38	76	114	152	190	228	266	304	342	380	418	456
51	36	72	108	144	180	216	252	288	324	360	396	432
52	35	70	105	140	175	210	245	280	315	350	385	420
53	33	66	99	132	165	198	231	264	297	330	363	396
54	31	62	93	124	155	186	217	248	279	310	341	372
55	30	60	90	120	150	180	210	240	270	300	330	360
56	28	56	84	112	140	168	196	224	252	280	308	336
57	27	54	81	108	135	162	139	216	243	270	297	324
58	25	50	75	100	125	150	175	200	225	250	275	300
59	24	48	72	96	120	144	168	192	216	240	264	288
60	22	44	66	88	110	132	154	176	198	220	242	264
61	21	42	63	84	105	126	147	168	189	210	231	252
62	20	40	60	80	100	120	140	160	180	200	220	240
63	18	36	54	72	90	108	126	144	162	180	198	216
64	17	34	51	68	85	102	119	136	153	170	187	204
65	16	32	48	64	80	96	112	128	144	160	176	192
66												

*Infantile Whole Life Table.*

Age next birthday	Under 6 months	6 months	1 yr.	2 yrs	3 yrs	4 yrs	5 yrs	6 yrs	7 yrs	8 yrs
2	\$ 12.50	25	34	40	48	58	70	110	150	190
3	17.00	34	40	48	58	70	110	150	185	
4	20.00	40	48	58	70	110	150	180		
5	24.00	48	58	70	110	150	175			
6	29.00	58	70	110	150	170				
7	35.00	70	110	150	165					
8	55.00	110	150	160						
9	75.00	150	155							





*Adult Twenty-year Endowment Table.*

Age next birthday    Benefits payable for the following weekly premiums  
                              5¢    10¢    15¢    20¢    25¢    30¢    35¢    40¢    45¢    50¢

10	\$	47	94	141	188	235				
11		46	92	138	184	230	276			
12		46	92	138	184	230	276			
13		46	92	138	184	230	276			
14		45	90	135	180	225	270	315	360	
15		45	90	135	180	225	270	315	360	
16		45	90	135	180	225	270	315	360	
17		44	88	132	176	220	264	308	352	396
18		44	88	132	176	220	264	308	352	396
19		43	86	129	172	215	258	301	344	387
20		43	86	129	172	215	258	301	344	387
21		43	86	129	172	215	258	301	344	387
22		43	86	129	172	215	258	301	344	387
23		42	84	126	168	210	252	294	336	378
24		42	84	126	168	210	252	294	336	378
25		42	84	126	168	210	252	294	336	378
26		42	84	126	168	210	252	294	336	378
27		41	82	123	164	205	246	287	328	369
28		41	82	123	164	205	246	287	328	369
29		41	82	123	164	205	246	287	328	369
30		41	82	123	164	205	246	287	328	369
31		41	82	123	164	205	246	287	328	369
32		40	80	120	160	200	240	280	320	360
33		40	80	120	160	200	240	280	320	360
34		40	80	120	160	200	240	280	320	360
35		40	80	120	160	200	240	280	320	360
36		39	78	117	156	195	234	273	312	351
37		39	78	117	156	195	234	273	312	351
38		39	78	117	156	195	234	273	312	351
39		38	76	114	152	190	228	266	304	342
40		38	76	114	152	190	228	266	304	342
41		38	76	114	152	190	228	266	304	342
42		37	74	111	148	185	222	259	296	333
43		37	74	111	148	185	222	259	296	333
44		36	72	108	144	180	216	252	288	324
45		36	72	108	144	180	216	252	288	324
46		35	70	105	140	175	210	245	280	315



*Adult Twenty-year Endowment Table, (continued).*

Age next birthday	Benefits payable for the following weekly premiums									
	5¢	10¢	15¢	20¢	25¢	30¢	35¢	40¢	45¢	50¢
47	\$ 34	68	102	136	170	204	238	272	306	340
48	34	68	102	136	170	204	238	272	306	340
49	33	66	99	132	165	198	231	264	297	330
50	32	64	96	128	160	192	224	256	288	320
51	31	62	93	124	155	186	217	248	279	310
52	31	62	93	124	155	186	217	248	279	310
53	30	60	90	120	150	180	210	240	270	300
54	29	58	87	116	145	174	203	232	261	290
55	28	56	84	112	140	168	196	224	252	280

*Young People's Twenty-year Endowment.*

Age next birthday	Under 1 yr.	1 yr.	2 yrs	3 yrs	4 yrs	5 yrs	6 yrs	7 yrs	8 yrs	9 yrs	10 yrs
2	\$ 12.50	15.00	17.50	20.00	22.50	25	30	35	40	45	50
3	15.00	17.50	20.00	22.50	25.00	30	35	40	45	50	
4	17.50	20.00	22.50	25.00	30.00	35	40	45	50		
5	20.00	22.50	25.00	30.00	35.00	40	45	50			
6	22.50	25.00	30.00	35.00	40.00	45	50				
7	25.00	30.00	35.00	40.00	45.00	50					
8	30.00	35.00	40.00	45.00	50.00						
9	35.00	40.00	45.00	50.00							





The foregoing tables illustrate the fact that industrial premiums are the unit of policy and the benefits are scaled to these. Placing policies on this basis, is done for the convenience and simplicity in the transaction of the business in the matter of collecting the premiums, the accounting of them and the vast amount of records attendant to them in recording the experience of the business. Also they illustrate clearly the matter of increasing benefits with increasing ages in the infantile tables, on the principle of renewable term insurance.

The amount of insurance written on children may be indicated by saying that it is usually a five cent policy. In the endowment forms, it is usually five or ten cents but never over ten cents in amount, because those amounts are limited by law, which are allowed to be written on children's lives. The amount of insurance on adults is from three cents weekly to sixty cents weekly on the life policies and from five cents weekly to fifty cents weekly on the endowment forms. Premiums do not extend higher than this, because generally a person able to pay fifty cents a week would be able to pay for an intermediate or an ordinary policy, which are much more desirable in this case.

There are no occupational distinctions in industrial rates of any kind. There are rigid lines drawn and classifications made regarding certain occupations and the introduction of applicants engaged in these, in ordinary insurance. Here the idea is to furnish insurance for the industrial classes. The medical inspections and examinations are merely to keep out those who are chronically diseased; tubercular persons and the mentally and physically deficient. All others are admitted. To draw the lines closer and have more strict examinations, barring many from the benefits of insurance and making a far more rigid selection of risks, would defeat the purposes of industrial



insurance. These are primarily to furnish insurance protection to the laborers and their families as such, and not to any selected group of a few persons. Industrial insurance is designed for the general industrial population as it is found in its own environment and under its own conditions of health; sanitation; standards of living; occupations and general modes of existence.

Considering the matter of the loading of industrial premiums to pay for the expenses of administration and operation of the business, it must be recognized that the industrial companies have much heavier expenses than ordinary companies due to the manifold causes which will be considered later and which have already been discussed in parts. These increased expenses involve the necessity of increasing the net premium on the insurance by a certain amount which is designed to pay expenses. This added amount, usually a percentage of the net premium, is called the loading. It is our object to consider the amounts of some of these loadings.

In the accompanying computations and tables we have shown the computation of the net premiums on the Industrial Whole Life Policy and on the Industrial Twenty-year Endowment Policy according to the Standard Mortality Table at three and one-half percent. These are the rates in use by the Prudential Insurance Company and likewise the Metropolitan Company so that the representative forms and figures in use today by these large companies will give a fair representation of the business and the loadings on the net premiums.

The usual ordinary insurance actuarial formulae have been modified to meet the industrial policy conditions, namely ---

- (1) Weekly premiums,
- (2) Premiums on *whole life* cease at age 75.





- (3) One-half benefits payable during the first six months; full benefits after the first six months.

The tables give the loading for the Whole Life form and the Twenty-year Endowment forms ---

- (1) Without corrections (2) and (3) above,  
(2) With corrections (2) and (3) above.

The loading on the Whole Life Policy is seen to be between 45 percent and 50 percent. The loading on the Twenty-year Endowment Policy is seen to be between 40 percent and 45 percent, while the ordinary loadings for the same company is 11.11 percent of the net premium or 10 percent of the gross premium on the Whole Life Policy. This illustrates clearly the differences in expense in the two forms. The Metropolitan and Prudential industrial rates for these forms are the same.





## Industrial Whole Life.

Age	$N_x$	$D_x$	$A_x$	$N_{x+1}$	$a_x$
10	16,233.3231	63,953.693	0.2538293	1,347,205.82	21.065333
20	14,207.9248	43,571.959	0.3260795	824,764.50	18.928791
30	11,039.8237	28,155.970	0.3920953	477,992.94	16.976611
40	8,197.8765	17,531.813	0.4676000	258,486.02	14.743827
50	5,880.7616	10,441.677	0.5632008	124,431.096	11.916773
60	3,735.4569	5,557.4380	0.6721545	48,321.138	8.694858

$$F_x^{(m)} = \frac{\frac{A_x}{m+1}}{\frac{1}{2m} + a_x};$$

$$\frac{m+1}{2m} = 0.50961538$$

Age	$A_x$	$\frac{m+1}{2m} + a_x$	$P_x^{(m)}$	per \$ 1000
10	0.2538293	21.57494838	0.01176500	11.765
20	0.3260795	19.43840638	0.01677501	16.775
30	0.3920953	17.48622638	0.02242309	22.423
40	0.4676000	15.25344238	0.03065537	30.655
50	0.5632008	12.42638838	0.04532296	45.323
60	0.6721545	9.20447338	0.07302476	73.025

Age	Per \$ 1000 weekly....	Am't of benefits by Prud. table for 5¢ weekly	Am't that this am't cost at net reates	Loading	Percent
10	.2263	\$ 150.00	3.394 ¢	1.606	47.32
20	.3226	\$ 105.00	3.387 ¢	1.613	47.62
30	.4312	\$ 79.00	3.406 ¢	1.594	46.80
40	.5895	\$ 57.00	3.360 ¢	1.640	48.81
50	.8716	\$ 38.00	3.312 ¢	1.688	50.97
60	1.4023	\$ 22.00	3.085 ¢	1.915	62.07



## Industrial Twenty-year Endowment

$$F_x^{(m)} = \frac{M_x - M_{x+20} + D_{x+20}}{\frac{1}{m} D_x + (N_{x+1} - N_{x+20}) + \frac{m-1}{2m} (D_x - D_{x+19})}$$

Age	$M_x$	$M_{x+20}$	$M_x - M_{x+20}$	$D_{x+20}$	Numerator
10	16,233.3231	11,039.8237	5,193.2994	28,155.970	33,349.2694
20	14,207.9248	8,197.8765	6,010.0483	17,531.813	23,541.8613
30	11,039.8237	5,880.7616	5,159.0621	10,441.677	15,600.7391
40	8,197.8765	3,735.4569	4,462.4196	5,557.4380	10,019.8573
50	5,880.7616	1,732.13904	4,148.62256	2,222.6572	6,371.27976

$$\frac{1}{m} = .0192308$$

$$\frac{m-1}{2m} = .4903846.$$

Age	$D_x$	$\frac{1}{m} D_x$	$N_{x+1}$	$N_{x+20}$	$N_{x+1} - N_{x+20}$
10	63,953.693	1,229.88068	1,347,205.82	506,148.91	841,056.91
20	43,571.959	837.92363	824,764.50	276,017.83	548,746.67
30	28,155.970	541.46183	477,992.94	134,872.77	343,120.17
40	17,531.813	337.15079	258,468.02	53,578.576	204,889.444
50	10,441.677	200.80180	124,431.096	14,505.319	109,925.777

Age	$D_{x+19}$	$D_x - D_{x+19}$	$\frac{m-1}{2m} (D_x - D_{x+19})$	Den.	$F_x^{(m)}$
10	29,472.665	34,481.128	16,909.01416	859,195.805	.038814
20	18,407.362	25,164.597	12,340.33083	561,924.924	.041895
30	11,034.709	17,121.261	8,396.02727	352,057.659	.044313
40	5,970.8224	11,560.9906	5,669.33175	210,895.927	.047511
50	2,490.2605	7,951.4165	3,899.25220	114,025.831	.055876

Age	per \$ 1000	per \$ 1000 weekly....	Am't of benefits by Prud. table at 25 ¢ wk.	Am't that this Am't forcast at net rates	Loading	Loading percent.
10	\$ 38.814	\$ .74642	\$ 235.00	17.5409 ¢	7.4591	42.52
20	\$ 41.895	\$ .80567	\$ 215.00	17.3219 ¢	7.6781	44.33
30	\$ 44.313	\$ .85217	\$ 205.00	17.4695 ¢	7.5305	43.11
40	\$ 47.511	\$ .91867	\$ 190.00	17.3597 ¢	7.6403	44.01
50	\$ 55.876	\$ .74642	\$ 160.00	17.1926 ¢	7.8074	45.41





## Whole Life Formula (preceeding) altered by

(1) One-half benefits paid in the first six months,

(2) Premium payments cease at age 75.

$$F_x^{(m)} = \frac{\frac{1}{2}v^{x+1/2}(l_x - l_{x+1/2}) + v^{x+1}(l_{x+1/2} - l_{x+1}) + M_{x+1}}{\frac{1}{m}D_x + (N_{x+1} - N_{75}) + \frac{m-1}{2m}(D_x - D_{75})}$$

$$F_{30}^{(52)} = \frac{.5v^{30+1/2}(l_{30} - l_{30+1/2}) + v^{31}(l_{30+1/2} - l_{31}) + M_{31}}{\frac{D_x}{52} + (N_{x+1} - N_{75}) + \frac{51}{104}(D_x - D_{75})}$$

$$= 22.5026 \text{ per } \$ 1000$$

$$= 43.2742 \text{ ¢ per } \$ 1000 \text{ weekly.}$$

Amount of benefits by the Prudential table for five cents weekly = \$ 79.00.

The amount that \$ 79.00 would cost at net rates = 3.4187 ¢ weekly.

Loading = 1.5813 ¢; loading = 46.25 percent as compared with the percent 46.80 before, showing the relatively small effect which corrections (1) and (2) above has on the problem.

## Twenty-year Endowment Formula (preceeding) altered by

(1) One-half benefits paid in the first six months.

$$F_x^{(m)} = \frac{[\frac{1}{2}v^{x+1/2}(l_x - l_{x+1/2}) + v^{x+1}(l_{x+1/2} - l_{x+1})] + M_{x+1} - M_{x+20} + D_{x+20}}{\frac{1}{m}D_x + (N_{x+1} - N_{x+20}) + \frac{m-1}{2m}(D_x - D_{x+19})}$$

$$F_{30}^{(52)} = \$ 44.0928 \text{ per } \$ 1000 = 84.7933 \text{ ¢ per } \$ 1000 \text{ weekly.}$$

Amount of benefits paid by the Prudential table for 25 ¢ weekly = \$ 205.00.

The amount that \$ 205.00 would cost at net rates = 17.3827 ¢ weekly.

Loading = 7.6173 ¢; loading = 43.82 percent as compared with the percent 43.11 above, showing the relatively small effect which correction (1) above



has on the problem.

The following table illustrates the comparative premium charges per \$ 100.00 of insurance for ---

- (1) Whole Life Policy,
- (2) Twenty-year Endowment Policy.

Age	Industrial annual amount paid		Ordinary (quarterly)		Industrial premium for every \$100 ord.	
	Whole Life	20 Endow.	Whole Life	20 Endow.	Whole Life	20 Endow.
20	2.48	6.05	1.56	4.40	159	138
25	2.39	6.19	1.76	4.44	164	139
30	3.29	6.34	2.00	4.48	165	141
35	3.82	6.50	2.32	4.56	165	143
40	4.56	6.84	2.76	4.72	165	145
45	5.53	7.22	3.32	4.96	166	146
50	6.84	8.12	4.12	5.36	166	152
55	8.67	9.28	5.20	6.04	167	178
60	11.82		6.68	7.16	177	
65	16.25		8.80	8.92	185	

The Whole Life and Endowment forms were chosen because they are the representative forms written by the companies at the present time on adult risks.



#### SECTION IV. *Valuations and Reserves on Industrial Policies.*

All legal reserve insurance is based primarily upon the idea of an adequate premium, sufficient to yield a full net reserve. Thus, the question of valuations and reserves is a very important one to the subject of industrial insurance. The computing of reserves on ordinary policies is a comparatively simple matter; but in the industrial business, while the finding of reserves is simple enough, the real difficulty lies in the practical application of the necessary actuarial formulae to the great mass of industrial business with its millions of small policies. In other words, the problem of finding the industrial valuations has been one to devise a scheme of applying scientific formulae to the huge volume of small policies in a practical way, and with a view to saving the labor and money expenditure from becoming prohibitive.

When industrial insurance started in the United States, there were no laws providing for valuations other than the ordinary valuation provisions. Ordinary and industrial insurance were all considered life insurance in the same sense. It was soon seen, however, that, due to the large amount of detail connected with industrial policies, no method of seriatim or individual treatment was practical for industrial policies, and that some method of valuing policies by grouping must be employed.

First, was tried a method of grouping the industrial policies by weeks of issue and the sum of all the policies issued in any one week at the same age was counted as one policy, and a list showing the amounts issued at each of the ages during that week was compiled and placed by itself. The same process was continued for every week and as a result, there were fifty-two lists needed and compiled in a year's time. All the policies were on the weekly premium plan and were liable to lapse in any one of the fifty-two





weeks yearly. At the end of the year the original schedules would by no means represent the numbers of the policies or the amounts of insurance in force and every item would have to be corrected to determine its present condition. Thus the immense amount of detail connected with this scheme was prohibitive and tended to multiply greatly from year to year.

A plan was then tried of condensing the lists used before into months of issue; but this plan presented on the whole the same difficulties that were in the previous plan.

Consequently there was much studying and experimenting on the part of actuaries in order to find a practical method of evaluating industrial policies. It was soon seen that grouping by years of issue was a practical method, assuming the middle day of the year as the average day of issue and reporting all policies issued at the various ages during the year as if bearing the date of July first. This plan reduced the fifty-two former lists to a single one for each year and the amounts reported were those in force on December thirty-first, the date fixed by the laws for the computation of reserves for the annual statements.

This plan greatly simplified matters and put the valuation of industrial policies on a practical basis; and, if the insurances under the industrial policies were to be paid for by annual premiums in advance, as is the case in ordinary business, they would have required a method no different from ordinary methods for their valuation.

Because of the fact that these premiums were not paid yearly in advance, but were payable weekly throughout the year, it must result that on December thirty-first, there remained yet to be paid on the yearly premium at least one-half of the yearly total and since in ordinary tabular valuations, the reserve is charged as if the whole had been paid in advance, there must be



allowed as a credit to offset the overcharge, an amount equal to the unpaid portion for the full year's period. As the valuation is by the net premium method, the overcharge to be credited would be roughly the sum of the net deferred installments.

A similar situation arises in the valuation of ordinary business where the premiums are paid semi-annually and quarterly, and the balance or adjustment is made by crediting in assets the amount overcharged; but it is a much simpler matter in ordinary business, because the amount thus to be considered is of relatively less importance. Also as the loading on the ordinary policy is approximately estimated as a percentage of the gross deferred amount, the correction is thus readily made.

In industrial business the matter is of much greater importance and difficulty. Because of the large relative amount deferred and because of the nature of the industrial premium, no average percentage could be assumed as the loading that would be safe or fair for any one year, to say nothing of the constant changes and variations as the years went on. To meet this difficulty a radically different plan must be devised from that applied to ordinary business. The industrial premium, as noted before, is made up of three parts. They are ---

- (1) Expenses,
- (2) Cost of Insurance,
- (3) Reserve.

Each weekly premium contributes to all three of these items. Death claims are paid immediately. The expense charge goes out at once to meet current expenses. Thus in reality only the reserve part gets to the office of the company. Thus if the policy is dated July thirty-first, then one-half of the first year's terminal reserve is on hand December thirty-first and is





chargeable on account to the policy, and thus the matter of deferred premiums is eliminated and need not be considered as entering the problem in any way.

It simplifies the whole case to what the premium has contributed toward reserve.

Thus on December thirty-first of the first year, the reserve would be one-half the first terminal reserve.

On December thirty-first of the second year, it would be the whole of the first terminal reserve plus one-half the difference between the first and second terminal reserves.

On December thirty-first of the third year, it would be the second terminal reserve plus one-half the difference between the second and third terminal reserves, and so on, for each successive year. Industrial policies are written with the *age next birthday*. Thus the policies are aged on the average one-half of a year too old and if the valuations were made up from schedules, made up at these policy ages, the reserve would be rather excessive. To correct this, the usual terminal tables are adjusted to the actual ages by taking the one-half sum of the two nearest terminals. Thus, the policy being issued for age twenty, we take one-half (the terminal reserve at nineteen plus the terminal reserve at twenty) and base the value of the first year on this. This makes the charge as if the policy were issued at actual age of nineteen and one-half years.

There are various modifications of this plan, as might be expected, in actual practice, but no important deviation in principle. It is ample, convenient and in accord with the results of the ordinary business.

It is self-evident that the soundest table of mortality for premiums and reserves would be one based on industrial experience, and such a table,



the Standard Industrial Table, has been compiled from the experience of the Metropolitan on standard industrial risks during the years 1896-1905. A similar table, the Sub-standard Industrial Table, has been similarly compiled for sub-standard industrial risks. In 1907, the Superintendent of Insurance of New York State designated these two tables as minimum standards of valuation for industrial policies issued after January 1, 1907, the amending law having directed him to fix such standards. These tables, however, give reserves considerably in excess of those by the American Experience Table, and in 1910 the law was amended so as to make the basis less stringent for the weaker companies. As it stands now the American Experience Table is the legal standard, but companies are given the option of valuing any portion of their business by the Standard and Sub-standard Tables. These provisions are found in New York Insurance Law, Sect. 84. Until 1907 the standards of mortality and interest were the same as for ordinary policies. The amended New York law now reads:

"The legal minimum standard for the valuation of industrial policies issued after the first day of January, 1907 shall be the American Experience Table of Mortality with interest at three and one-half percent provided, that any life insurance company may voluntarily value its industrial policies written on the weekly payment plan according to the Standard or Sub-standard Table of Mortality. Any life insurance corporation may voluntarily value its policies, or any class thereof, according to the American Experience Table, or if industrial, at its option, according to the Standard or Substandard Mortality Tables, at a lower rate of interest than that above prescribed, but not lower than three percent per annum," and so forth.

In Massachusetts the standards have been the same as in ordinary poli-





cies, but in 1911 the law was amended permitting valuation of weekly payment business according to tables showing a higher rate of mortality, if approved by the Insurance Commissioner. This is contained in Section eleven of the Massachusetts insurance law.

Theoretically, industrial premiums and reserves should be computed by a special formula that would take into consideration the fact that premiums are paid weekly, no deduction of the unpaid portion of the year's premium being made in the event of death; but practically, reserves are generally computed in the same way as for ordinary policies. In computing mean reserves, interpolation is made between terminal reserves, instead of between initial and terminal. This is true, inasmuch as the premiums are payable weekly throughout the year and there is no deduction at the time of death for the remainder of the year's premiums, these policies are practically considered as policies with continuous premiums. The reserves held at the end of any calendar year therefore, are the mean between the terminal reserves for the respective years.

Massachusetts has always held that "half-ages" and "half years" should be used, policies being issued at "age next birthday," it being reasoned that they are issued on the average at the end of June and at an age one-half year younger than that entered in the policy. Thus, policies issued in 1911 are at age thirty next birthday treated as if the actual age at issue were twenty-nine and one-half and at the end of the first calendar year, one-half year's reserve would be used; at the end of the second, one and one-half year's; and so on.

The question has often been raised, on account of the heavy initial expenses during the first year of the policy, (just as in ordinary forms), some form of allowance should be made for this, this to be accomplished by





allowing the reserves, held the first several years, to be lessened in some equitable manner and then made up in the later years of the policy. In ordinary forms we have Preliminary Term methods and New York State's Select and Ultimate method. Why not have some equitable arrangement in the industrial class of insurance as well? The larger and older companies do not suffer from this effect because of the large volume of their business and the fact that they have large surplus funds from which to draw. Further they do not suffer to the extent due to the fact that they were not required to keep such stringent reserves when they were in their infancy, as is now required for new companies. The initial expenses are also increased proportionately due to the heavy lapse rate the first few years, especially in the first six months of the first year.

On account of the lapse rate in the early history of industrial policies, Massachusetts allows a deduction of seven-twelfths of the reserve at the end of the first calendar year and one-fourth at the end of the second, so the reserves are ---

At end of first year -- five-twelfths of one-half year's reserve,

At end of second year - three-fourths of one and one-half year's reserve,

At end of third year -- full two and one-half year's reserve.

In New York State, on Whole Life Policies, the old rule, still applied to policies issued prior to 1907, was to take the integral age entered in the policy and compute the reserve as having started to accumulate at the end of the first calendar year. Thus, the reserve would be ---

At end of first calendar year --- no reserve,

At end of second calendar year -- one year reserve,

At end of third calendar year --- two year's reserve.

In the early days, not only were policies under partial benefit during



the first policy year, but nothing whatever was payable in the event of death during the first three months. It was considered on account of these small first year benefits, the policies could be valued as if all had been issued at the end of the first calendar year; hence the New York rule. On endowment policies, however, a modification was necessary, and New York adopted the following rule:

End of first calendar year --- one-fourth reserve,  
end of second calendar year -- one and one-half year's reserve,  
end of third calendar year --- two and one-half year's reserve.

On all policies issued since January 1, 1907, the Metropolitan has used, in computing its New York State valuation, the full one-half year reserve at the end of the first calendar year; one and one-half year's reserve at the end of the second; and so on; on the basis of the Standard and Sub-standard Tables, with three and one-half percent interest. As this table is used on "age next birthday," half ages are not used.

On old infantile whole life policies, when the maximum amount of insurance was the same for all ages at entry throughout the table, policies were treated as term insurance during the infantile period, after which they began to take a reserve. This was true in both New York and Massachusetts. The standards and methods adopted by New York State have generally been accepted by other states with the exception of Massachusetts, which case has already been noted.

Regarding the practice of the Prudential Company, it is very similar to that of the Metropolitan just noted above, in fact identical with it in its valuations and reserves on industrial policies. Up to the present, New York and New Jersey are the only two states using the Standard Industrial Table of Mortality for the valuation of industrial policies. The other states





generally specify the use of the American Experience Table for the valuation of industrial policies, the same as with the ordinary policies, with the provision or option that the Standard Table may be used if desired, as this table creates reserves greater in amount than the American Experience Table.

The question of latitude allowed on industrial policies is not different from that allowed on ordinary policies. It is as important that industrial valuations be made on the basis of sound actuarial principles as that ordinary valuations should be so made, particularly in view of the liberal concessions in the policies issued at the present time.



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## CHAPTER IV

## THE EXPERIENCE OF THE INDUSTRIAL INSURANCE COMPANIES.

SECTION I. *Mortality Experience.*

The experience of the industrial life insurance companies has been similar in many respects to that of the ordinary companies. All legal reserve companies operate on the same general principles of security and permanent stability. The granting of protection is the chief reason for their existence.

Industrial insurance, however, was the last form to rise into prominence as a distinct and important branch of the life insurance business. It reaches a class of people who would, except for this form of insurance, be left entirely without insurance protection of a secure kind. Because of the fact that industrial insurance reaches a distinct class of risks, it has its own peculiar problems concerning mortality experience.

Industrial insurance, as has been stated, is written primarily among the industrial classes of our country. By industrial class, in this sense, is meant the laboring class, the workingmen and their families. Being an institution primarily intended for this class of risks, it follows that the business is transacted for the most part in our large cities, with a lesser amount of business transacted in the smaller neighboring towns. The question, then, of mortality to the industrial insurance company, means urban mortality. It means, further, not the general urban mortality, but the urban mortality of the wage-earning class. This wage-earning population is composed mainly of factory workers. They are employees and their dependents of the large manufacturing and mercantile corporations of our country.





The conditions of living of industrial risks are largely those of the unskilled laborer. The range of application of the industrial policy extends from the slum class to those to whom the ordinary policy is applicable. But it is, on the whole, the class of people just above the tenement and slum types that we consider.

Questions of the standard of living, health and sanitation, wages received, occupations, nativity and many similar points must be considered in a full treatment of industrial mortality.

The mortality experience of the industrial companies has been much higher than that of the ordinary companies. In fact, it is even higher than the mortality rate of the general census. This is a very significant fact and shows clearly one of the elements entering into the high cost of industrial insurance, as compared with certain other forms. A comparison of the mortality rates between ordinary experience, census returns and industrial experience is shown clearly by the following table.

Column (a) is from Farr's English Life Table, computed from two censuses of the general population of Great Britain.

Column (b) is from the American Life Table, compiled from the United States census data of 1830, 1840, 1850, 1860 and checked by census returns of 1830.

Column (c) is from the Actuaries Table which is made from the experience of 17 English companies transacting ordinary business. It corresponds to the American Experience Table in the United States.

Column (d) is from the American Experience Table, compiled by Sheppard Homans from the Mutual Life Company's experience.

Column (e) is from the Standard Industrial Table of Mortality compiled from the Metropolitan Insurance Company's experience between the years 1896-1905.



Showing the Number of Deaths for Every 1000 Living at the Following Ages.

Age next birthday	(a) Farr's English Table	(b) U. S. Census Table	(c) British Actuaries' Table. (Even ages)....	(d) American Experience Table (Even Ages)	(e) Metropolitan Industrial Table (1/2 yr. young- er)
20	7.74	9.15	7.29	7.81	10.52
21	8.46	9.39	7.38	7.86	11.56
25	9.24	9.63	7.77	8.07	14.14
35	11.24	10.80	9.29	8.95	17.15
45	14.50	13.68	12.21	11.16	22.56
55	21.75	20.80	21.66	13.56	35.22
65	41.20	38.40	44.08	40.13	64.51
70	60.80	55.09	64.93	61.95	90.99

(b) The United States Census Table, or

American Life Tables, computed from censuses of 1830, 1840, 1850, 1860 and checked by census returns of 1880.

(Found in Meech's System of Tables of Life Insurance).





It is clearly seen from a study of the figures of this table that the mortality rate of industrial insurance of adults ranges from 140 to nearly 200 percent of the Actuaries' Table, while the American (Ordinary) Experience Table shows only 80 percent of the Actuaries' Table. In reality the industrial experience is then from 170 to 230 percent of the old-line ordinary insurances. This is true because of the many conditions and limitations placed upon the industrial business in the matter of its risks.

We will now proceed to the examination of some causes of this unfavorable comparison of industrial mortality with ordinary and even with the census mortality. Mr. Hoffman, Statistician of the Prudential Insurance Company, in his report on "Industrial Insurance in the United States" at the Fifth International Congress of Actuaries in Berlin, 1906, discusses the question of Industrial Mortality at some length. The operations of industrial companies are practically limited to the large cities. The mortality of the urban population is high compared with the rural population. Not only is this urban mortality high, but certain elements of the population, especially the industrial class, have a high mortality rate. Elements of age, sex, race and occupation enter into the industrial insurance mortality question. The distribution of policies with respect to age follows the population distribution of ages pretty closely, and this factor is not a separate one outside of the general population factor.

With respect to ages, the following tables illustrate the age distribution of policyholders and the comparative age distribution of industrial insurance policyholders to the general population.



*Age Distribution of Industrial Policyholders.*

United States, 1904\*

Ages	Urban Population	Industrial Policyholders	Ratio of Persons to one policy
1 - 4	1,759,357	1,003,161	1.7
5 - 14	5,915,079	3,761,852	1.6
15 - 24	5,884,745	3,307,295	1.8
25 - 34	5,672,409	2,476,553	2.3
35 - 44	4,368,058	1,833,903	2.4
45 - 64	4,641,062	2,695,994	1.7
65 - over	1,365,018	595,626	2.3
Total	29,605,728	15,674,384	1.9

*Comparative Age Distribution. Industrial Insurance Policyholder - to - General Population.*

Ages	Percent of total, Ages 1 on	
	Metropolitan 1905 %	U. S. Census 1900 %
1 - 4	9.6	9.8
5 - 9	12.9	12.0
10 - 14	12.2	10.9
15 - 19	10.7	10.2
20 - 29	17.7	18.8
30 - 39	12.8	14.3
40 - 49	10.0	10.4
50 - 59	8.0	7.9
60 - 69	4.9	4.2
70 - over	1.2	2.4
Total	100.0	100.0

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\*By Hoffman.



There, further, is no sex discrimination in the selection of industrial risks. The term race refers in American statistics to such terms as Whites, Negroes, Chinese, Japanese and Indians. But the last three require very little attention as their numbers are so very few in the population and the number of industrial risks of these races are practically negligible. But negroes have a high death rate as compared with the white risks. The following table\* shows the comparative mortality of white and colored risks.

Ages	White	Colored	Negro mortality to every 100 white
Under 5	49.7	113.5	238
5 - 14	4.1	9.8	239
15 - 24	5.9	15.6	264
25 - 34	8.6	16.9	197
35 - 44	11.1	21.0	189
45 - 64	21.5	36.7	171
65 - over	86.0	108.6	126

Rates per 1000 population

U. S. Census, 1900.

This high mortality rate of negroes is due primarily to their susceptibility to various infectious and chronic diseases. In the southern states the negro mortality experience compares fairly favorably with that of the general white population; but negroes as a class risk in the northern states are found in the experience of the Prudential Company, to be shorter lived than the white risks. The Prudential Company does not solicit colored risks for these reasons, as it is entirely unfair to the white risks who are put in the same class, as regards industrial rates. The Metropolitan Company

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\*By Hoffman.





accepts negro risks and for a while solicited them, but at the present time they are not actively soliciting them as a class because of their unfavorable past experience with their negro policyholders.

Discrimination against the negro is forbidden by law. Legislation was passed to this effect on racial grounds alone and with no regard to the scientific facts of the case. In 1881 negro mortality was first noticed by industrial insurance companies to be unfavorable compared with white mortality and suitable action was taken to fix just rates for the two classes. But in 1884 a negro member of the Massachusetts legislature introduced a bill to compel the insurance companies to accept negro risks on the same terms as white. The bill became law. Rhode Island followed in 1886; New York in 1891 and New Jersey in 1894. Nearly all states have since passed anti-discrimination laws. Negroes are now very largely deprived of insurance because they are simply not solicited by the companies. The laws were based merely upon sentiment and defeated the very purpose for which they were passed.

The distribution of risks according to nativity shows a very definite tendency in the matter of the native and foreign born risks. The following table shows the rate of mortality by nativity, per 1000 population, United States census of 1900, among American, Bohemian, Italian, Irish and German immigrants.

*Rate by Nativity.*

Ages	American	Bohemian	Italian	Irish	German
15 - 24	5.0	4.7	6.6	7.5	4.8
25 - 34	6.4	8.1	7.1	12.2	7.4
35 - 44	7.5	10.5	9.2	15.0	9.6
45 - 64	14.6	18.8	17.2	30.6	20.3
65 - over	65.9	72.7	66.1	96.9	81.8



The mortality rate by nativity is perhaps the lowest, for the native born Americans, according to the above table for ages 15 and above. The large majority of immigrants are over fifteen years of age, most of them are twenty years of age or above. As the immigrant population forms a large percentage of our industrial class, centered as they are in our large cities, it follows that the industrial risks above age fifteen or twenty show a large percentage of the foreign born. Industrial risks below fifteen years of age are about all native born. The proportion of the foreign born among the industrial risks increases with age until about fifty-five to sixty-five for males; and age sixty-five to seventy-five for females. This point is further borne out by the following comparisons.

Let us consider *new business* according to *premium payments*, ---

36 percent of new business written --- 5 cent policies,  
41 percent of new business written --- 10 cent policies,  
23 percent of new business written --- over 10 cent policies.

(For age under ten years, exclusively) ---

61 percent of new business written --- 5 cent policies,  
39 percent of new business written --- 10 cent policies,

(as no higher than ten cents is accepted on infantile policies).

Considering according to premium payments the *claims* paid, (instead of new business as above) ---

17 percent of all claims are 5 ¢ policies,  
33 percent of all claims are 10 ¢ policies,  
50 percent of all claims paid are over 10 ¢ policies, or  
23 percent of claims are less than \$ 50,  
19 percent of claims are from \$ 50 to \$ 99,  
39 percent of claims are from \$ 99 to \$ 199,





19 percent of claims are \$ 200 or over,  
and for ages under 10 years, alone ---

62 percent of all claims are less than \$ 25,

26 percent of all claims are from \$ 25 to \$ 49,

12 percent of all claims are over \$ 50.

making the average claim for under 10 years about \$ 30.00.

This shows very clearly the effect of the foreign born population on the mortality rate of industrial risks.

Among the industrial wage-earning classes certain diseases such as tuberculosis and cancer figure very materially in the mortality rate. The following table shows the comparative mortality rate of males and females due to tuberculosis and cancer.\*

*Tubercular Diseases and Cancer.*

Ages	Tubercular Diseases		Cancer	
	Males %	Females %	Males %	Females %
15 - 29	38.0	40.6	0.4	0.7
30 - 44	34.3	28.9	4.5	5.9
45 - 59	15.5	9.6	4.7	10.6
60 - 74	5.5	3.9	4.9	6.4

Summing up, then, we might say that the higher death rates among the industrial classes are due to a variety of causes. These might be classified in a variety of ways, but the following one is a very clear and concise one for our purposes. It is taken from a classification given by Mr. Hoffman.

(1) Occupations are *unhealthy; dangerous*. The insurance compan-

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\*Table by Mr. Hoffman.



ies publish lists of occupations and trades which they deem to be dangerous and hazardous and therefore require either special, medium or hazardous ratings for the ordinary business. All of these occupations are included in the industrial lists of policyholders at the usual rates: no discrimination being made against them. A partial list of these occupations is:

- (1) Acid makers,
- (2) Aviators,
- (3) Baseball players,
- (4) Brass founders, molders, casters,
- (5) Bridge builders and painters,
- (6) Celluloid and cement workers,
- (7) Chauffeurs,
- (8) Circus employees,
- (9) Cooks,
- (10) Oil mill employees,
- (11) Dyers,
- (12) Electrical industry employees,
- (13) Mining industry, coal and metal,
- (14) Oil industry,
- (15) Police,
- (16) Pottery and brick workers,
- (17) Railroad employees,
- (18) Stone workers,
- (19) Telegraph employees,
- (20) Textile workers.

All these occupations in ordinary rates are quoted, simply on the basis of occupation, as being either special, medium or hazardous ratings and some



are entirely declined. Industrial insurance accepts all these without a discrimination of any kind because it is these classes for whom this form of insurance is designed primarily.

(2) The foreign-born risks are subject to a higher mortality than are the native born as shown by the above statistics of new business written and claims paid for the various ages.

(3) The conditions of living are very unhygienic. The tenement districts are overcrowded and unsanitary places in which to live. These conditions are especially bad among the Southern European immigrants. In cases of injuries and sickness these people do not receive proper medical attention; often after accidents occur in the factories the injuries are exposed, become infected and bloodpoison results. All of these factors tend to increase the mortality rates of these, the wage-earning classes.

(4) The employees are subjected to infectious diseases. When these people are exposed they do not take proper care of themselves and worse conditions soon result. They cannot always take care of themselves if they would because the working conditions at low wages require steady labor for long hours. The working conditions are often far from the best in matters of lighting, heating, ventilating and the general sanitation of the workshops and factories. The employees very often will not, either through carelessness, or ignorance, cooperate with the management in the improvement of conditions, when efforts are bent on improving their welfare. A variety of infectious and contagious diseases is especially prevalent among the typical factory employees. It is these conditions with which industrial insurance as such must contend. It is these factors that make the mortality rates high.

(5) The medical examinations of the ordinary insurances are much more severe than in industrial examinations and inspections. This, of course,





is necessary, because if the industrial examination were severe, the prime object of industrial insurance would be defeated, namely, to supply insurance protection to the masses. Information as to family history and other data required on the application forms, is not obtainable very often from the foreign-born and others who are very poor. For this reason no accurate statistical records along these lines can be kept.

(6) The habits of life of factory workers must be taken into consideration. Very often they are shiftless, careless and dirty in their manner of living. This substandard conditions probably contributes further to the high mortality. This condition is due to a variety of causes, some of which the employees can control; others that they cannot. The stress of the industrial system today tends to drive them into indifferent and careless habits.

(7) Relative *poverty* of the industrial classes often makes them unable to secure good, wholesome food and shelter and clothing; also the lack of funds prevents proper medical attention and remedies for sickness; they also either suffer from lack of vacations and rest altogether or else are out of employment for a long time and suffer from conditions in this respect.

(8) Mortality from diseases and accidents among the industrial classes is very high. This is especially true of such diseases as ---

- (i) Consumption,
- (ii) Pneumonia,
- (iii) Lung trouble,
- (iv) Liver trouble,
- (v) Alcoholism,
- (vi) Rheumatism.



This condition is due mainly to lack of care and medical attention.

(9) No distinction or selection of risks is made in industrial insurance to any appreciable extent. Only the degenerates and the chronically sick are kept out. Industrial insurance is a *mass* institution.

The more healthy of the rural classes are not included in the industrial risks. Further, the industrial insurance companies' mortality experience show higher rates than the census tables, because the census includes among its numbers the healthier and economically better classes, as well as the wage-earning classes.

The following tables\* show the comparative mortality of the urban and rural population; and the comparative mortality of the Metropolitan Company and the United States census for 1900.

*Rates per 1000 of Population. U. S. Census, 1900.*

Ages	Urban	Rural	urban mortality to every 100 rural
Under 5	57.6	34.4	167
5 - 14	4.7	3.2	147
15 - 24	6.7	5.2	129
25 - 34	9.6	6.8	141
35 - 44	12.6	8.0	157
45 - 64	24.8	15.7	158
65 - over	93.3	76.8	121

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\*From Hoffman.





*Metropolitan Insurance Company and U. S. Census, 1900,*

*Registration Area. Rate per 1000.*

<i>Ages</i>	<i>Metropolitan</i>	<i>U. S. Census</i>	<i>Metrop. Mortality to every 100 U.S.</i>
20 - 24	12.9	7.5	172
30 - 34	16.5	9.4	176
40 - 44	21.1	12.2	173
50 - 54	31.8	19.1	166
60 - 64	56.4	35.1	161
70 - 74	111.5	75.2	148
80 - 84	222.3	165.8	136
90 - 94	428.4	339.2	126

Considering the mortality of insured children and comparing that with the general mortality of children, it has been found to be less than the general mortality figures, thus conclusively disproving the ideas and assertions of some concerning tendencies toward infanticide and child neglect.

Deaths per thousand among children are shown by the following table:

<i>Age next birthday</i>	<i>Farr's Table</i>	<i>U.S. General 1880 General population</i>	<i>census of 31 cities</i>	<i>Metropolitan experience</i>
2	65.59	57.6	37.4	49.37
3	36.13	29.0	36.7	32.01
4	24.59	21.5	24.7	21.53
5	17.92	16.5	17.9	16.07
6	13.53	8.2	8.9	11.61
7	10.75	8.2	8.9	9.64
8	9.18	8.2	8.9	7.94
9	7.69	8.2	8.9	6.55
10	6.56	8.2	8.9	5.47



The general mortality has been steadily growing less.

A comparison of children insured and those not insured:

Ages	U. S. Census 1900	Prudential Experience
		1897 - 1901
1 to 2	46.6	31.6
2 to 3	20.5	14.6
3 to 4	13.2	10.2
4 to 5	9.4	8.0
5 to 9	5.2	4.4

The mortality experience of the London and American Prudential Companies has always been very nearly the same. The mortality of insured children is less than the general mortality because of the added care in selection and medical examinations. The mortality rate of children is decreasing as shown by the following table.

<i>Rates per 1000</i>		
Ages	1890	1900
1 - 2	84.9	46.6
2 - 3	23.3	20.5
3 - 4	16.8	13.2
4 - 5	13.0	9.4
5 - 9	7.3	5.2
10 - 14	3.8	3.3

This table shows the tendencies of mortality rates as regards children's insurance.



The following tables are the

- (1) Standard Industrial Mortality Table,
- (2) Sub-standard Industrial Mortality Table,
- (3) American Experience Mortality Table.

The first curve sheet shows the number (per 100,000 living at age 10 years) dying at each age from 10 years to 100 years, inclusive.

The second curve sheet shows the yearly probability of dying, according to the three tables of mortality, from ages 2 to 100 years, inclusive.

The two curve sheets are designed to illustrate the comparative mortality. They illustrate the matter of selection of risks as the amounts of insurance increase and as more healthy and economically better risks are taken by the companies, advancing from industrial sub-standard risks through industrial standard risks to the American Experience (ordinary) risks.

### *Standard Industrial Mortality Table*

Age	Number Living	Number Dying	Yearly Probability of Dying.....	
2	100 000	3467		.034670
3	98 533	2169		22469
4	94 364	1248		13225
5	93 116	881		.009461
6	92 235	664		7199
7	91 571	545		5952
8	91 026	445	On basis of 100,000 at age 10	4889
9	90 581	368		4063
10	90 213	310	344	3436
11	89 903	274	304	3048
12	89 629	258	286	2879
13	89 371	263	292	2943
14	89 108	282	313	3165
15	88 826	318	352	3580
16	88 508	364	403	4113
17	88 144	421	467	4776
18	87 723	482	534	5495
19	87 241	542	601	6213
20	86 699	599	664	6909
21	86 100	657	722	7561
22	85 449	690	772	8145
23	84 753	732	811	8637
24	84 021	764	847	9093
25	83 257	793	879	9525





## Standard Industrial Mortality Table continued

Age	Number of Living	Number Dying	On basis of 100,000 at age 10	Yearly Probability of dying
26	82 484	820	909	.009944
27	81 644	845	937	.010350
28	80 799	873	968	10805
29	79 926	898	995	11235
30	79 028	917	1016	11603
31	78 111	935	1036	11970
32	77 176	946	1049	12258
33	76 230	952	1055	12489
34	75 278	959	1063	12739
35	74 319	965	1070	12985
36	73 354	970	1075	13224
37	72 384	979	1085	13525
38	71 405	990	1097	13865
39	70 415	1002	1117	14230
40	69 413	1017	1127	14651
41	68 396	1032	1144	15089
42	67 364	1049	1163	15572
43	66 315	1068	1184	16105
44	65 247	1090	1208	16706
45	64 157	1113	1234	17348
46	63 044	1139	1263	18067
47	61 905	1165	1291	18819
48	60 740	1196	1326	19690
49	59 544	1228	1361	20623
50	58 316	1262	1399	21641
51	57 054	1299	1440	22768
52	55 755	1339	1484	24016
53	54 416	1379	1529	25342
54	53 067	1423	1577	26830
55	51 614	1469	1628	28461
56	50 145	1516	1680	30232
57	48 629	1566	1736	32203
58	47 063	1615	1790	34316
59	45 448	1666	1847	36657
60	43 782	1717	1903	39217
61	42 065	1768	1960	42030



## Standard Industrial Mortality Table (continued)

Age	Number Living	Number Dying	On basis of 100,000 at age 10	Yearly probabili- ty of dying
62	40 297	1817	2014	.045090
63	38 480	1864	2066	48441
64	36 616	1908	2115	52108
65	34 708	1948	2159	56125
66	32 760	1983	2198	60531
67	30 777	2010	2229	65309
68	28 767	2029	2249	70532
69	26 738	2038	2259	76221
70	24 700	2037	2258	82470
71	22 663	2023	2242	89264
72	20 640	1995	2211	96657
73	18 645	1952	2164	.104693
74	16 693	1893	2098	113401
75	14 800	1820	2017	122973
76	12 980	1730	1918	133282
77	11 250	1625	1801	144444
78	9 625	1507	1670	156572
79	8 118	1377	1526	169623
80	6 741	1239	1373	183801
81	5 502	1095	1214	199019
82	4 407	950	1053	.215566
83	3 457	806	893	233150
84	2 651	668	740	251980
85	1 983	540	599	272315
86	1 443	424	470	293832
87	1 019	322	357	.315996
88	697	238	264	341463
89	459	168	186	366013
90	291	115	127	395189
91	176	74	82	.420455
92	102	46	51	450980
93	56	26	29	464286
94	30	15	17	.500000
95	15	8	9	533333
96	7	4	4	571429
97	3	2	2	.666667





## Standard Industrial Mortality Table (continued)

Age	Number Living	Number Dying	On basis of 100,000 at age 10	Yearly probability of dying
98	1	1	1	1.000000
99	0	0		
100	0	0		

## Sub-standard Industrial Mortality Table

Age	Number Living	Number Dying		Yearly probability of dying
2	100 000	6140		.061400
3	93 830	4181		44545
4	89 679	2080		23194
5	87 599	1239		14144
6	86 360	918		10630
7	85 442	788		.009223
8	84 654	687	To reduce to	8115
9	83 967	614	100,000 rates	7312
10	83 353	572	686	6862
11	82 781	558	669	6741
12	82 223	574	689	6981
13	81 649	619	743	7581
14	81 030	683	819	8429
15	80 347	759	911	9447
16	79 588	841	1009	.010567
17	78 747	918	1101	11658
18	77 829	982	1178	12617
19	76 847	1024	1229	13325
20	75 823	1042	1250	13742
21	74 781	1040	1248	13907
22	73 741	1020	1224	13832
23	72721	988	1185	13586
24	71 733	957	1148	13341
25	70 776	928	1113	13112
26	69 848	907	1089	12985



*Sub-standard Industrial Mortality Table (continued)*

<i>Age</i>	<i>Number Living</i>	<i>Number Dying</i>	<i>To reduce to 100,000 rates</i>	<i>Yearly Probability of dying</i>
27	68 941	893	1071	.012953
28	68 048	886	1063	13020
29	67 162	885	1062	13177
30	66 277	885	1062	13353
31	65 392	886	1063	13549
32	64 506	888	1064	13766
33	63 618	891	1069	14005
34	62 727	896	1075	14284
35	61 831	905	1086	14637
36	60 926	915	1099	15018
37	60 011	926	1119	15431
38	59 085	937	1124	15859
39	58 148	950	1140	16338
40	57 198	965	1158	16871
41	56 233	979	1175	17410
42	55 254	995	1194	18008
43	54 259	1013	1215	18670
44	53 246	1032	1238	19382
45	52 214	1052	1262	20148
46	51 182	1072	1286	20953
47	50 090	1095	1314	21861
48	48 995	1119	1342	22839
49	47 878	1143	1371	23874
50	46 733	1168	1401	24993
51	45 565	1195	1434	26226
52	44 370	1223	1467	27564
53	43 147	1250	1499	28971
54	41 897	1279	1534	30527
55	40 618	1307	1568	32178
56	39 311	1337	1604	34011
57	37 974	1365	1638	35946
58	36 609	1393	1671	38051
59	35 216	1420	1704	40323
60	33 796	1446	1735	42786
61	32 350	1470	1764	45440
62	30 880	1492	1790	48316
63	29 388	1510	1812	51382



## Sub-standard Industrial Mortality Table (continued)

Age	Number Living	Number Dying	To reduce to 100,000 rates	Yearly probability of dying.
64	27 878	1526	1831	.054739
65	26 352	1537	1844	58326
66	24 815	1543	1851	62180
67	23 272	1545	1859	66389
68	21 727	1540	1848	70880
69	20 187	1529	1834	75742
70	18 658	1510	1812	80930
71	17 148	1485	1782	86599
72	15 663	1451	1741	92839
73	14 212	1409	1690	99142
74	12 803	1359	1630	.106147
75	11 444	1300	1560	113597
76	10 144	1234	1484	121848
77	8 910	1161	1393	130303
78	7 749	1082	1298	139631
79	6 667	996	1195	149393
80	5 671	908	1089	160113
81	4 763	816	979	171321
82	3 947	724	869	183430
83	3 223	633	759	196401
84	2 590	544	653	.210039
85	2 046	460	552	224829
86	1 586	381	457	240227
87	1 205	309	371	256432
88	896	245	294	273438
89	651	191	229	293395
90	460	143	172	.310370
91	317	105	126	331230
92	212	75	90	353774
93	137	52	62	379562
94	86	34	41	.400000
95	51	21	25	411765
96	30	14	17	466667
97	16	8	10	.500000
98	8	5	6	.625000
99	3	2	2	.666667
100	1	1	1	1.000000
101	0	0		





## American Experience Mortality Table.

Age	Number Living	Number Dying	Yearly probability of dying.....
10	100 000	749	.007490
11	99 251	746	7516
12	98 505	743	7543
13	97 762	740	7569
14	97 022	737	7596
15	96 285	735	7634
16	95 550	732	7661
17	94 818	729	7688
18	94 089	727	7727
19	93 362	725	7765
20	92 637	723	7805
21	91 914	722	7855
22	91 192	721	7906
23	90 471	720	7958
24	89 751	719	8011
25	89 032	718	8065
26	88 314	718	8130
27	87 596	718	8197
28	86 878	718	8264
29	86 160	719	8345
30	85 441	720	8427
31	84 721	721	8510
32	84 000	723	8607
33	83 277	726	8718
34	82 551	729	8831
35	81 822	732	8946
36	81 090	737	9089
37	80 353	742	9234
38	79 611	749	9408
39	78 862	756	9586
40	78 106	765	9794
41	77 341	774	.010008
42	76 567	785	10252
43	75 782	797	10517
44	74 785	812	10829
45	74 173	828	11163
46	73 345	848	11562



*American Experience Mortality Table (continued.)*

<i>Age</i>	<i>Number Living</i>	<i>Number Dying</i>	<i>Yearly probability of dying</i>
47	72 497	870	.012000
48	71 627	896	12509
49	70 731	927	13106
50	69 804	962	13781
51	68 842	1001	14541
52	67 841	1044	15389
53	66 797	1091	16333
54	65 706	1143	17396
55	64 563	1199	18571
56	63 364	1260	19885
57	62 104	1325	21335
58	60 779	1394	22936
59	59 385	1468	24720
60	57 917	1546	26693
61	56 371	1628	28880
62	54 743	1713	31292
63	53 030	1800	33943
64	51 230	1899	36873
65	49 341	1980	40129
66	47 361	2070	43707
67	45 291	2158	47647
68	43 123	2243	52002
69	40 890	2321	56762
70	38 569	2391	61993
71	36 178	2448	67665
72	33 730	2487	73733
73	31 243	2506	80178
74	28 738	2501	87028
75	26 237	2473	94371
76	23 761	2431	.102311
77	21 330	2369	111064
78	18 961	2291	120827
79	16 670	2196	131734
80	14 474	2091	144466
81	12 383	1964	158605
82	10 419	1816	174297
83	8 603	1648	191561

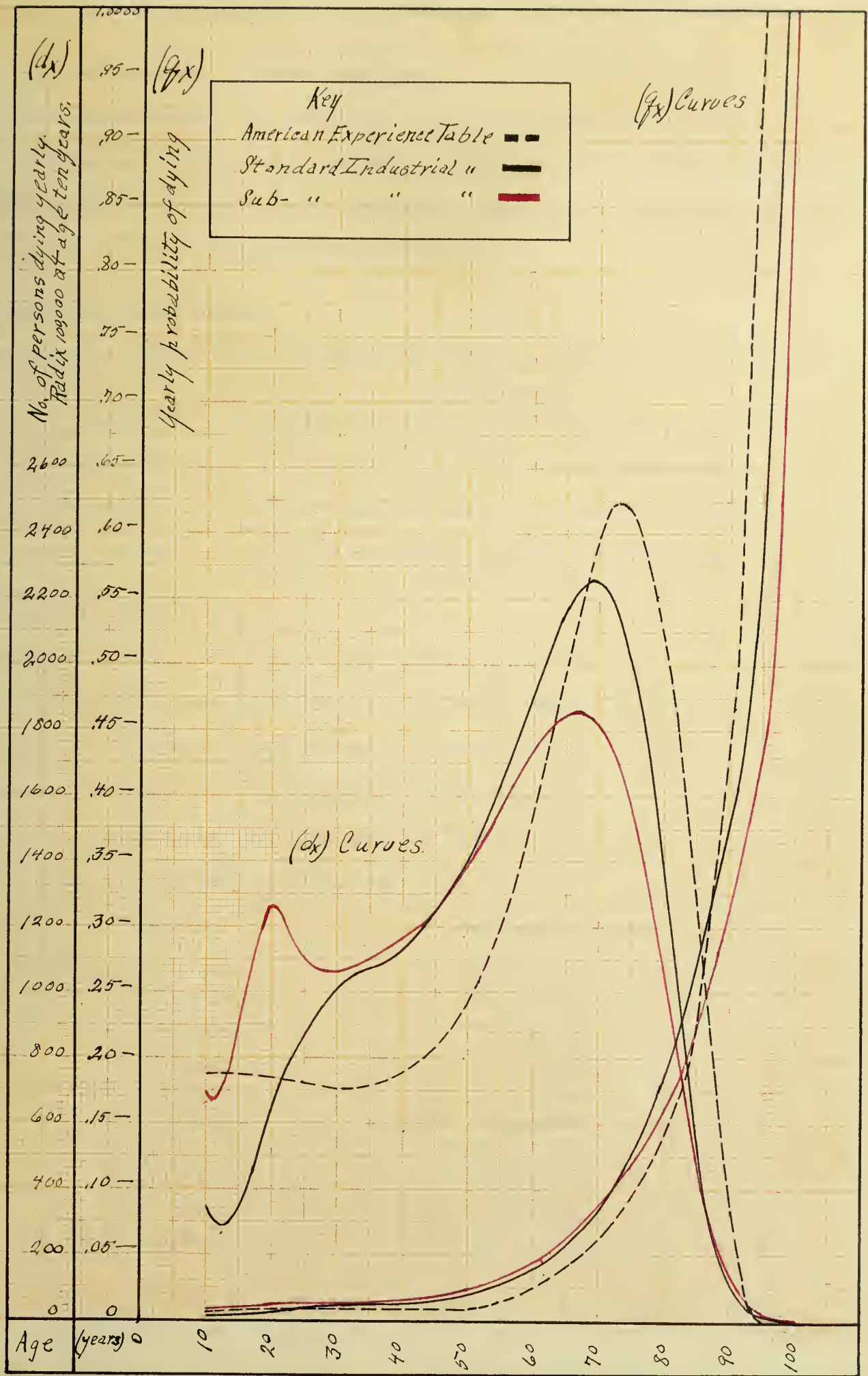




*American Experience Mortality Table (continued)*

<i>Age</i>	<i>Number Living</i>	<i>Number Dying</i>	<i>Yearly probability of dying</i>
84	6 955	1470	.211359
85	5 485	1292	.235552
86	4 193	1114	.265681
87	3 079	933	.303020
88	2 146	744	.346692
89	1 402	555	.395663
90	847	385	.454545
91	462	246	.532466
92	216	137	.634259
93	79	58	.734177
94	21	18	.857143
95	3	3	1.000000
96	0	0	







## SECTION II. *Lapse Experience.*

The experience of the industrial insurance companies in regard to lapses is an often misunderstood subject. Lapses occur on new business largely during the first year of policy duration. From 1900 to 1905 policies showed a duration as follows, (tables from Hoffman).

### Metropolitan experience.

Of issue of 1900 --- 34.34 percent of policies lapsing, lapsed during the first year.

In 1901 --- 18.64 percent lapsed during the second year.

In 1902 --- 5.37 percent lapsed during the third year.

In 1903 --- 3.03 percent lapsed during the fourth year.

In 1904 --- 2.36 percent lapsed during the fifth year.

### Prudential Experience.

Of issue of 1900 --- 37.51 percent --- first year.

In 1901 --- 22.37 percent --- second year.

In 1902 --- 5.71 percent --- third year.

In 1903 --- 3.39 percent --- fourth year.

In 1904 --- 2.61 percent --- fifth year.

The duration of lapsed policies was ---

<i>Duration</i>	<i>Percent of lapse.</i>
Less than 13 weeks	37 percent
13 - 25 weeks	17 percent
25 - 38 weeks	7 percent
39 - 51 weeks	5 percent
52 - 64 weeks	3 percent
65 - 77 weeks	3 percent
78 - 90 weeks	2 percent
91 - 103 weeks	2 percent
2 - 3 years	6 percent
3 years and more	18 percent.





Thus we see that about 35 percent of all the industrial policies that lapse, do so during the first year. Most of these lapse within the first thirteen weeks, the high point being six weeks after the policy is written. This means that just two premiums are paid and then, with the four weeks grace period, the policy is lapsed after six weeks. The heavy lapse rates of the industrial companies are due to many causes.

(1) Fifty-two opportunities in a year are given for lapsing as compared with four times, at most, for ordinary policies. A little neglect easily lapses a policy.

(2) The lapse rate in the ordinary and industrial business does not mean the same thing; because industrials may lapse and re-enter again; they may even lapse and re-enter a second time; this may continue several times. The four weeks grace period is favorable to the policyholder each time. Cases are possible where protection might be gained absolutely free by taking opportunity of the lapse scheme at the right times. These lapses mean nothing but gains to the policyholder and losses to the companies. The four weeks grace period in which the policy is still in force makes the holder lose very little while the company loses much, considered as the sum of all the numerous small losses. The average period of payment for those policies lapsing during the first year, is only about six weeks.

(3) It takes a second and even a third year of continuous payments on a policy continually in force to re-coup the company for the initial expenses and put the policy on a paying basis. The Prudential, as shown in a legislative investigation, had policies which showed a loss of 290 percent of the reserve at the end of



the first year; 25 percent only of this reserve liability had been made up at the end of the second year; and at the end of the third year, the policies had made up only 52 percent of the reserve liability. So it is necessary to wait until the fourth year of policy duration to even meet the reserve, neglecting profits of any sort. All lapses of the first two or three years are therefore losses to the company.

- (4) The companies do all they possibly can to prevent lapses, not only by sending out literature instructing policyholders of the undesirability of lapsing; but especially in the matter of remunerating their agents. Agents are paid on increase only. They have to make good all lapses before they receive any special commissions for writing new business. This makes it to the prime interest of the agent not to let any policies lapse and as a rule he works most industriously persuading the policyholders not to lapse their business. The companies must protect themselves from abuse of this lapsing power on the part of the policyholder, by making it to the interest of the agent not to influence policyholders to lapse and then later to rewrite the same business.

- (5) The lapse rates given include---

- (1) lapses by death,
- (2) policies cancelled on which premiums were returned,
- (3) policies surrendered to be rewritten,
- (4) policies surrendered for paid-ups,
- (5) policies written out of friendship to agents with no idea of persistence.

A common fallacy lies in the belief that enormous profits are made from





lapses by the insurance companies. The number of policies issued each year is contrasted with the number reported in the annual statements of the companies to the insurance departments as having terminated by lapse, and the deduction is drawn that all the lapsed policies have contributed something in the way of premiums to the companies, which the latter retain and from which profits are made.

As was said above, the term lapsed, as applied in industrial insurance policies is different from that in ordinary policies. For actuarial purposes the company records consider every policy applied for as issued, whether a single week's premium has been paid on it or not. All applications received at the home office satisfactory to the medical department, are issued and sent for delivery to the agents who procured the applications. These agents in actual practice have four weeks in which to deliver the policy and secure the first payment thereon and at the end of that time, those policies which have not been paid for are reported and lapsed. In ordinary insurance the agent has sixty days in which to deliver the contract and if he does not succeed in doing so, it is returned to the home office and marked "not taken" instead of "lapsed."

Lapses are a source of actual loss and if not checked by every possible means, they will affect the safety of the company. An industrial policy takes about two years to pay for the cost of putting it on the books and as most of the lapses occur during the first policy year, the chances of big profits are extremely small. The fact that agents are paid on increase only shows that lapses are avoided by the companies in this very effective way by forcing the agent to exert all his powers to keep the insurance in force.

It is supposed and charged that gains arise from lapses, by turning in- to surplus, the reserves on lapsed policies, heretofore charged up as a lia-



bility. As was outlined above, it was the fourth year before the Prudential Company made up its reserve liability, neglecting any profits; demonstrating again the fallacy of the profit idea from lapses.

Many reasons contribute toward lapses in the industrial business. The economic condition of the people is such that the difference between income and subsistence is small. But the redeeming feature is that the lapses are not all permanent. The revival rate is high and the terms are liberal.

There is also an adverse selection due to lapses. The sub-standard risks tend to remain and the good risks will tend to lapse their insurance.

The companies not only lose due to the initial costs of placing the insurance on the books, but also from the fact that they have the risk of insurance all the time, including the four weeks grace period; also including the four weeks the agent has to deliver the policy in. If an agent fails to write increase for several weeks his case is considered pretty carefully and if he continues to not make an increase, he is discharged. This again illustrates the fact that the companies do not want lapses and do everything in their power to prevent them. The policy conditions were seen to be exceptionally liberal in the matter of re-instatement to lapsed policyholders.

Further, it costs more to put a new policy on the books than the surrender charge allowed by law amounts to, even after the policy has continued long enough to have a considerable surrender value. The companies have long since clearly recognized the fact that nothing whatsoever was to be gained by lapsing any policy.

No profits are attached to lapses on infantile insurance, because the greatest mortality occurs during the first year of life. They are decreasing risks and renewable term insurances. No reserves are needed and the weekly premiums provide for claims and expenses. Surplus is profit to the





company and the more policies, the more surplus is accumulated; so that lapses are a distinct loss.

Perhaps the brightest feature of the lapse question is that there has been a steady decrease in the lapse rate during the history of the industrial companies. The lapse rate is continually improving. Most of the lapses do not represent a financial loss to the insured in any way whatsoever; but on the other hand constitute a serious question to the industrial companies. The companies have left nothing undone that ingenuity or rules could do to diminish the issuing of business likely to lapse. After the first three years, policies are fairly steady in the matter of continuance and then they begin to have a paid-up value. The percentage of the total industrial policies terminating by lapse in

1900 was 21.4 percent,

1905 was 17.2 percent,

1910 was 13.5 percent.

A substantial increase in the revival rate has also been noted year after year, and this with the lowering lapse rate continually lessens the hazardous features of the lapse situation.





### SECTION III. *The Experience in Legislation.*

The industrial insurance companies have had a varied experience in the matter of legislation. In the United States, the various states exercise a certain amount of control over the insurance companies and there is no uniform insurance code. Each state enacts laws affecting its own "home" companies, and the so-called "foreign" companies, operating within the state. Just as countries differ in their laws on any question, so do the states differ in their regulation of insurance.

Thus, there is endless confusion and difficulty, which the insurance companies must encounter, often involving the needless expenditure of large sums of money, in conforming to the laws of one state and being compelled by the next state to conform to an entirely new situation. This matter of state insurance department requirements, is of special importance and difficulty, in respect to the valuation of policies, the keeping of reserves, and the specifications of general policy provisions.

But perhaps the worst features of the situation is not so much the divergence of legislation, but rather the policy of retaliation and personal gain at the expense of every other state which each state pursues. Each state tends to favor its "home" companies and to discriminate against the "foreign" companies. A simple, but effective, uniform insurance code is the thing that is most to be desired.

The leading states in the matter of insurance legislation are New York, New Jersey and Massachusetts, as it was in these states that the insurance business received its first start and especially the industrial insurance business, which was almost entirely confined in its early history to operations within these three states. As a result of this situation these states have always been the leaders in the matter of insurance legislation and other



states have conformed their laws to these, in so far as any conformity in the laws may exist.

The state insurance departments now require annual statements to be made, including business and financial reports of the companies. The laws have further provided for the various internal methods of operation of the companies, especially in the matter of the kind of insurance to be written; the distribution of surplus; valuations; capitalization; purchase of bonds and disposal of securities and various other provisions. The laws of New York, New Jersey and Massachusetts that follow, have been taken from the insurance code of these states. The laws have been included in so far as they in any way affect the transaction of the industrial business of the companies within those states. These statutes may be considered representative in the matter of industrial insurance legislation in the various states.

#### *New York Insurance Law.*

CHAPTER XXVIII of the Consolidated Laws, (in effect January first, 1910).  
Article II. Sections 70 - 101, Life, health and casualty insurance corporations.

*Section 83.* Except as herein provided every domestic insurance corporation heretofore or hereafter organized, whether incorporated by special act or under a general statute, anything in its charter or certificate of incorporation notwithstanding, shall provide in every policy issued on or after the first day of January, Nineteen Hundred and Seven, that the proportion of the surplus accruing upon said policy *shall be ascertained and distributed annually and not otherwise.* Upon the thirty-first day of December of each year, or as soon thereafter as may be practicable, every such corporation shall well and truly ascertain the surplus earned by such corporation during the said year. After setting aside from such surplus, such surplus as may be required for the payment of authorized dividends upon the capital stock, if any, and such sums as may properly be held for account of existing deferred dividend policies and for a contingency reserve not in excess of the amount prescribed in this article, every such corporation shall apportion the remaining surplus equitably to all other policies entitled to share therein.

. . . . .





In the case of a term or industrial policy issued on or after the first day of January, Nineteen Hundred and Seven, the share of surplus so apportioned shall be payable to the owner of the policy in cash or shall be applicable to the payment of any premium or premiums upon said policy, or if so provided in the policy shall be permitted to accumulate to the credit of the policy at such rate of interest as shall be allowed by the company and in such case shall be payable upon the maturity or expiration of the policy or shall be withdrawable in cash by the holder thereof on any anniversary of the date of issue thereof. The dividends declared as aforesaid in the case of a policy issued on or after the first day of January, Nineteen Hundred and Seven, shall be payable respectively either upon the anniversary of the policy next after said thirty-first day of December or upon a day certain in the year following said date, according to the rules of the corporation or terms of the policy, and upon the sole condition that the premium payments for the policy year current upon said thirty-first day of December shall have been completed.

This section shall not apply to any stock life insurance corporation which on or after the first day of January, Nineteen Hundred and Seven, shall transact and shall represent itself as transacting its business upon a non-mutual basis and shall issue after said date only non-participating policies . . . . . and so on.

*Section 84.* The superintendent of insurance shall annually make valuations of all outstanding policies, additions thereto, unpaid dividends, and all other obligations of every life insurance corporation doing business in this state. All valuations made by him or by his authority shall be made upon the net premium basis. The legal minimum standard for contracts issued before the first day of January, Nineteen Hundred and One, shall be the actuaries or combined experience table of mortality with interest at four percent per annum, and for contracts issued on or after said day shall be the American experience table of mortality with interest at three and one-half percent per annum; provided that the legal minimum valuation of all contracts issued on or after the first day of January, Nineteen Hundred and Seven, shall be in accordance with the select and ultimate method and on the basis that the rate of mortality during the first five years after the issuance of said contracts respectively shall be calculated according to the following percentages of the rates shown by the American Experience Table of Mortality, to wit

First insurance year --- 50 percent thereof,  
 Second insurance year --- 65 percent thereof,  
 Third insurance year ---- 75 percent thereof,



Fourth insurance year --- 85 percent thereof,

Fifth insurance year --- 95 percent thereof.

. . . . . and so on.

*Section 38.* . . . . . If any policy of life insurance (other than a term policy for twenty years or less), issued on or after January first, Nineteen Hundred and Seven, by any domestic life insurance corporation, after being in force three full years shall by its terms lapse or become forfeited by the non-payment of any premium or any note whatever or any loan on such policy or of any interest on such note or loan, the reserve on such policy computed according to the standard adopted by said company in accordance with section eighty-four of this chapter, together with the value of any dividend additions on said policy, after deducting any indebtedness to the company and one-fifth of the said entire reserve, or the sum of twenty-five dollars for each one thousand dollars of the face of said policy is said sum shall be more than the said one-fifth, shall upon demand with surrender of the policy be applied as a surrender value as agreed upon in the policy, provided that if no other option expressed in the policy be availed of by the owner thereof, the same shall be applied to continue the insurance in force at its full amount including any outstanding dividend additions less any outstanding indebtedness on the policy so long as such surrender value will purchase non-participating temporary insurance at net single premium rates by the standard adopted by the company, at the age of the insured at the time of lapse or forfeiture, provided in case of any endowment policy of the sum applicable to the purchase of temporary insurance shall be more than sufficient to continue the insurance to the end of the end of the endowment term named in the policy, the excess shall be used to purchase in the same manner pure endowment insurance apayable at the end of the endowment term named in the policy on the conditions on which the original policy was issued. . . . . and so on.

*Section 90.* No life insurance corporation doing business in this state shall make any distinction or discrimination between white persons and colored persons, wholly or partially of African descent, as to the premiums or rates charged for policies upon the lives of such persons, or in any other matter whatever. . . . . and so on.

*Section 92.* No life insurance company doing business in this state shall within one year after the default in payment of any premium installment or interest declare forfeited or lapsed, any policy hereafter issued or renewed and not issued upon the payment of monthly or weekly premiums, or unless the same is a term insurance contract for one year or less nor shall any such policy be forfeited, or lapsed by reason of non-payment when due of any pre-





mium, required by the terms of the policy to be paid, within one year from the failure to pay such premium, interest or installment, unless a written or printed notice . . . . . be sent to the policyholder. . . . .  
 . . . and so on.

New York gives "Standard Policy Provisions," as do many states, and adds that the parts of those provisions not applicable to single premium and non-participating policies shall be applicable to these. Thereby is the industrial policy given a wide range of freedom in action and provisions.

*New Jersey Insurance Law.*

ARTICLE I. Section 99. (For part applying to industrial policies).

On and after the first day of January, Nineteen Hundred and Eight, no policy of life insurance shall be issued or delivered in this state to any company or be issued by any foreign company, unless the same shall contain provisions (Those applying to industrial insurance are) . . . . .

1579	THE PULLMAN COMPANY		414
	PASSENGER'S CHECK		
	To be retained by passenger to identify accommodations indicated on the accompanying ticket. Property taken into car will be entirely at owner's risk. Subject to all other conditions stated on ticket.		
	NEW YORK to BUFFALO		
	Rate \$2.00.	Seat No. . . . . CAR . . . . .	
Line No . . . . .			

*Third.* A provision that the contract shall constitute the entire contract between the two parties and that after a specified time, not later than two years from its date, shall be incontestable, except for non-payment of premiums and for violations of its express conditions, if any, relating to hazardous travel, residence or occupation in which case the liability of the company may be limited to a definitely determinable reduced amount, which shall not be less than the full reserve for the policy and any dividend additions.

A company may issue a special form of policy on the life of a person employed in an occupation or residing in a location classed by the company as hazardous or as liable to lead to hazardous employment or residence . . . . . and so on.

*Fourth.* A provision that the contract shall contain the entire contract between the parties.

*Fifth.* A provision that if the age of the insured has been understated, the amount payable under the policy shall be such as the premium would have purchased at the correct age.

*Seventh.* A provision that in event of default of premium payments after premium shall have been paid for three years, shall secure to the owner of the policy a stipulated form of insurance, the net value of which shall be



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mum, required by the terms of the policy to be paid, within one year from the failure to pay such premium, interest or installment, unless a written or printed notice . . . . . be sent to the policyholder. . . . .  
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*New Jersey Insurance Law.*

ARTICLE I. *Section 99.* (For part applying to industrial policies).

On and after the first day of January, Nineteen Hundred and Eight, no policy of life insurance shall be issued by any domestic company or be issued or delivered in this state to any resident thereof by any foreign company, unless the same shall contain the following provisions. (Those applying to industrial insurance are) ---

*Third.* A provision that the contract shall constitute the entire contract between the two parties and that after a specified time, not later than two years from its date, shall be incontestable, except for non-payment of premiums and for violations of its express conditions, if any, relating to hazardous travel, residence or occupation in which case the liability of the company may be limited to a definitely determinable reduced amount, which shall not be less than the full reserve for the policy and any dividend additions.

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*Seventh.* A provision that in event of default of premium payments after premium shall have been paid for three years, shall secure to the owner of the policy a stipulated form of insurance, the net value of which shall be



at least equal to the entire reserve held by the company on the policy, (specifying the mortality rate and rate of interest adopted for computing such reserve), less a specified percentage not more than three of the amount insured by the policy, including dividend additions thereto, if any, and less any outstanding indebtedness to the company on the policy.

*Ninth.* A provision that in event of default of premium payments, the value of the policy shall have been applied to the purchase of other insurance and if such insurance shall be in force, and the original policy shall have not been surrendered to the company and cancelled, the policy may be reinstated within three years from such default, upon evidence of insurability satisfactory to the company and payment of arrears of premiums together with compound interest on such premiums and on all liens, if any.

*Tenth.* A provision that when a policy shall become a claim by the death of the insured settlement shall be made either immediately upon or within a specified period not more than two months after receipt of due proof of death.

This is a typical illustration of state law regarding provisions of insurance policies, relating to *industrial insurance*.

#### *Massachusetts Insurance Law*

Chapter 118.

(1908, 482)

##### *Section 71.*

No life insurance company organized under the laws of or doing business in this Commonwealth shall enter into any contract of insurance upon lives within this commonwealth without having previously made or caused to be made a prescribed medical examination of the insured by a registered medical practitioner. . . . and so on.

*Section 75.* This section contains the standard policy provisions in effect after January 1, 1908. The introduction of this section reads that *policies*, cannot be delivered unless they contain these provisions, "except *policies of industrial insurance* when the premiums are payable monthly or oftener."

*Section 76.* Annual dividends for companies issuing participating business are provided for.

(1908, 166).

(1907, 576), Section 80 was amended to read ---

. . . . . On policies of prudential or industrial insurance on which the premiums are paid weekly and are not more than fifty cents each, the surrender value shall in all cases be payable in cash, which shall be a legal claim for not more than two years from the date of lapse and be pay-





able within sixty days after the demand therefor. . . . .

The taxation situation is in a more deplorable state of affairs than are the general legislative provisions at the present time. The various states differ in the matter of legislation regarding the taxation of domestic and "foreign" insurance corporations. But the one provision that is found in common in all the state statutes is that a retaliatory law is in effect "to the effect that whatever law may exist in any other state, against any insurance corporation, incorporated under the laws of this state, in the matter of taxation, the same law shall be in effect in this state against that other states' companies operating in this state."

Thus it is a process of retaliation, punishing the "foreign" insurance corporations operating in this state, at the expense of the domestic insurance corporations of this state, doing business in every other state. Corporations as a rule are likely to suffer from this sort of loose legislation.

There are statutes providing for a

- (1) General property tax,
- (2) Franchise tax,
- (3) "Miscellaneous taxes",
- (4) Tax on income from premiums.

Again the statutes on taxation affecting industrial insurance corporations from the states of New York, Massachusetts and New Jersey have been chosen, as these are the representative states at the present time on this matter of insurance companies' taxation.

#### *New York Tax Law.*

#### Article IX.

#### Corporation Tax.

*Section 183.* Insurance or surety corporations are exempt from the Franchise tax.



*Section 187.* An annual state tax for the privilege of exercising corporate franchises or for carrying on business in their corporate or organized capacity within this state equal to one percent of the gross amount of premiums received during the preceeding calendar year for business done at any time in this state, which gross amount of premiums shall include all premiums received during such preceeding calendar year on all policies . . . ., and all premiums received during such preceeding calendar year . . . ., issued or delivered in all years prior to such preceeding calendar year, whether such premiums were in the form of money, notes, credits, or any other substitute for money, shall be paid annually into the treasury of the state on or before the first day of June, by the following corporations,

- (1) Every domestic insurance corporation,
- (2) Every insurance corporation incorporated in any state of the United States,
- (3) Every insurance corporation of any foreign country.

*Section 190.* Insurance companies . . . . . (in Section 187) owning any state bonds, shall have credited to it annually to apply on or in lieu of the payment of such tax an amount equal to one percent per annum of the par value of all such bonds of the state, bearing interest at a rate not exceeding three percent per annum . . . . ., on the thirtieth day of July prior to the date when such tax shall become due and payable. . . . .

*Section 192. Reports of Corporations.*

. . . . .

(5) Every insurance corporation liable to pay a tax under Section 187, shall, on or before March first of each year make a written report of its condition to the comptroller at the close of its business on December thirty-first preceeding stating the gross amount of all premiums referred to in Section 187 of this chapter, received during the preceeding calendar year on business done thereby in this state during the year ending with such day and at all times prior thereto, whether the premiums were in money or in the form of notes, credits or other substitutes for money.

From the "Taxation of Corporations," a report of the Commissioner of Corporations on the system of taxing manufacturing, mercantile and transportation corporations, 1910. The

*New York General Property Tax.*

All corporations, domestic and foreign, pay the general property tax practically like individuals, but for local purposes only. Under this tax the assessment of personal property is based upon the total assets of the corporation after deducting property exempt by law, (including shares of stock of





other corporations), assessed value of the corporation's real estate, debts of the corporation, and surplus, if any, up to ten percent of the capital.

*Stockholders and Bondholders.* Bonds of domestic and foreign corporations are taxable for local purposes only in the hands of holders, except that bonds secured by real estate mortgages upon which the recording tax is paid are exempt.

*Foreign Corporations.* Foreign corporations, for both state and local purposes, are taxed practically like domestic corporations.

### *Statutes on Local Taxation.*

*General Property Tax.* "All real property within the state, and all personal property situated or owned within the state, is taxable, unless exempt from taxation by law."

*Real Estate of Corporations.* Real estate of corporations liable to taxation is assessed at actual value where situated, like real estate of individuals.

*Personal Property of Corporations.* All personal property of corporations, domestic and foreign, liable to taxation, is assessed in the tax district where the principal office of the company is situated, and, if the company has no such office, then in the tax district where its operations are carried on.

The taxable value of personal property is determined under the statutory provision thus:

"The capital stock of every company liable to taxation, except such part of it as shall have been excepted in the assessment roll or shall be exempt by law, together with any surplus, profits or reserve funds exceeding ten percent of its capital, after deducting the assessed value of its real estate, and all shares of stock in other corporations actually owned by such company which are taxable upon their capital stock under the laws of this state, shall be assessed at its actual value."

### *Financial Results (1909)*

Insurance taxes = \$ 1,236,973.53

Insurance fees =     427,074.40

The present system of taxing corporations for local purposes began in 1827. In 1881 there was imposed also, an annual "franchise tax" on insurance companies, based on gross premiums or earnings, for business done in the state.





### *Massachusetts.*

Domestic corporations are taxed upon real estate.

*General Property Tax.* The general property provision in Massachusetts applies to corporations in the case of real estate, but that corporations are taxed only upon specific classes of personal property.

The theory being that personal property of citizens alone is taxable, and that the personality of domestic corporations is reached in the tax on the capital stock, (corporate excess).

### *New Jersey.*

*General Property Tax.* All corporations are taxed locally for local purposes on tangible property as are individuals. Under the general property tax codified in 1903, the real and personal property of foreign and domestic corporations is taxed locally for local purposes like that of individuals; and corporations are "regarded as residents and inhabitants of the taxing district where their chief office is situated."

Insurance companies are specifically taxed under the particular provisions of Sections 17 and 18, Laws 1903, Chapter 208, Article III, paragraph 16.

Insurance companies are not taxed on capital stock under "miscellaneous corporations." They are not taxed like public utility corporations but are reached under a supplement of 1892 to the Act of 1884, General Statutes III, pp. 3337-3338, as supplemented March 17, 1892, Section 4. The tax on these companies is termed an annual fee or franchise tax and in 1909 the insurance companies paid the state a little over \$ 439,000.

This tax is one percent upon the amount of surplus on the preceeding thirty-first day of December and also thirty-five one-hundredths of one percent upon the total gross insurance premiums collected during the preceeding year. The shares of stock in insurance companies are not taxable to the holders, but their other securities are so taxable.

A retaliatory law is in effect in New Jersey to the effect that whatever law may exist in any other state against a New Jersey Insurance Company in the matter of taxation, the same law shall be in effect in New Jersey against that other state's companies operating in New Jersey, 1906, (P. L. p. 418).

The taxation of life insurance policyholders is a question that has been debated very much in the legislative chambers of the federal and state governments at various times, and there is much that could be said on both sides of the question. It is my purpose here merely to outline briefly the main points of contention on both sides of the argument.



It is said that life insurance is merely a form of income the same as any other and therefore should be taxed in this class of incomes. Further that an insurance corporation is like any other corporation and should be taxed accordingly by a

- (1) General Property Tax,
- (2) Franchise Tax,
- (3) Premium Income Tax.

On the other hand, it is said that in mutual companies, the companies are nothing more than the sum total of the policyholders. Taxing the company is taxing each of the policyholders out of the surplus of the company. The first important distinction is the fact that the industrial insurance company is not a company primarily for gain. It is a provident institution providing protection against the misfortunes of old age. It provides an income to the widow and the orphan, when the source of support is removed. It is an institution whose prime object is to promote savings and thrift so that dependency in old age upon public support may be avoided. It is a voluntary system of self-help. To tax this institution is to take away part of the funds which are to provide protection and the self-help, which will render public charity unnecessary. It is a tax against thrift, against self-help to avoid public aid.

The burden of taxation to the insurance company in the past years has been an ever-increasing one. Federal taxation is reducing yearly the benefits which should go to the policyholders as the result in the savings in expenses brought about on the part of the companies by strict economy and increasing efficiency of office management. In the last analysis the expenses are paid by the policyholders, and consequently every increase in taxes means an increase in the cost of insurance.





## Taxation Statistics of American Life Insurance Companies.\*

Year	No. of Cos.	Taxes Paid	Premium Income	Taxes to each \$ 100 of premium income.	Total Income	Taxes to each \$100 of total income
1875	50	1,073,632	\$ 85,142,319	\$ 1.26	\$110,636,073	\$ 0.97
1876	41	1,109,456	72,115,121	1.54	96,714,414	1.15
1877	37	1,301,633	63,003,338	2.07	86,529,095	1.50
1878	37	1,041,745	57,354,840	1.82	81,056,371	1.29
1879	37	1,396,632	53,921,044	2.59	73,559,289	1.78
1880	37	1,504,703	54,103,902	2.78	78,369,485	1.92
1881	36	1,630,072	57,237,168	2.85	81,781,592	1.99
1882	33	1,401,987	61,376,115	2.28	86,533,380	1.62
1883	32	1,317,404	68,192,943	1.93	93,703,772	1.41
1884	32	1,390,228	73,189,593	1.90	93,480,667	1.41
1885	32	1,566,780	80,027,603	1.96	107,381,525	1.46
1886	33	1,617,514	91,134,566	1.77	119,597,697	1.35
1887	33	1,664,994	103,569,026	1.61	134,106,073	1.24
1888	33	1,832,769	118,070,895	1.55	151,200,425	1.21
1889	33	2,062,148	137,644,435	1.50	173,222,755	1.19
1890	50	2,249,143	153,069,250	1.42	196,938,069	1.14
1891	53	2,535,139	172,955,133	1.47	213,444,589	1.19
1892	56	2,760,717	184,526,133	1.50	227,619,526	1.21
1893	56	3,060,664	196,970,893	1.55	241,727,505	1.27
1894	56	3,433,118	209,641,725	1.64	261,959,111	1.31
1895	56	3,741,223	219,713,308	1.70	271,928,709	1.33
1896	57	4,133,184	227,969,363	1.81	283,726,855	1.46
1897	56	4,373,595	243,347,949	1.80	304,945,675	1.44
1898	60	5,122,383	257,655,153	1.99	325,452,134	1.57
1899	69	6,432,169	291,342,264	2.22	365,368,062	1.77
1900	76	7,313,054	324,723,954	2.25	400,603,257	1.33
1901	80	7,454,561	366,273,457	2.04	457,965,754	1.63
1902	80	8,304,230	406,946,597	2.04	504,527,705	1.65
1903	92	8,967,225	447,543,322	2.00	553,639,900	1.62
1904	93	9,652,737	448,253,174	1.93	599,031,332	1.61
1905	112	9,646,650	515,996,335	1.37	642,053,530	1.50
1906	138	10,911,673	526,594,393	2.07	667,135,592	1.64
1907	160	11,105,363	533,077,447	2.08	673,656,595	1.64
1908	171	12,352,292	545,853,410	2.26	703,930,149	1.75
1909	189	12,126,470	565,223,893	2.15	743,027,392	1.62
1910	214	13,032,560	593,333,241	2.20	781,011,249	1.67

\*From Hoffman.



America alone, of all the governments in the world, so taxes life insurance. Other countries actually contribute toward it and instead we tax it. American life insurance companies now pay over \$ 13,000,000 annually. The amount is rapidly increasing. The taxes in 1890 were about \$ 2,000,000; now they are over \$ 13,000,000. There is not one uniform system but 43 different kinds of supervision and varieties of taxes. It was originally intended to pay only for the supervision of the companies, but this original intention has since been lost in the desire for government funds and the place to find them conveniently. Senator Sherman of Illinois said in the United States Senate, August 27, 1913 that ---

"Life insurance is a protection. It is not bought for primary gain. It ought to be cheapened and made easier. Instead of laying burdens on it, the government ought to exempt it and the companies writing it from taxation. Life insurance is a device by which such defaults may be avoided, a process by which society may be relieved of what ultimately may be a public burden. The difficulty is to appreciate the fact that in life insurance there is another great accumulation of securities, so wise in its obligation to society, so beneficent in its influence upon the family, so powerful in its assistance to the state, so destructive in its opposition to want, that its appeal for exemption from further taxation, is as much entitled to consideration in this chamber as any that can come before a legislative body. Instead of being further taxed, it ought to be relieved of some of its burdens."

At the National Convention of State Insurance Commissioners in 1908, it was said that ---

"The State should insist upon the faithful conservation of life insurance funds and their application to their intended use. It should be as reluctant itself to divert them from their intended use as to permit individuals



to employ them for political purposes or in extravagance of management."

Thus, is the question presented at the present time. There is no immediate hope of relief, but let us hope for wise legislation in the future and that the true purposes of life insurance and its functions may be rightly instilled in the minds of our lawmakers in the future.





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## CHAPTER V

## THE ECONOMIC AND SOCIAL VALUE OF INDUSTRIAL INSURANCE.

\* \* \*

Industrial insurance as we have seen is of comparatively modern origin, starting with the Prudential of London in Great Britain in 1854 and with the Prudential of Newark in the United States in 1875. All forms of industrial insurance are, of course, the result of slow development of theory and practice. When industrial insurance was in its infancy, its scientific principles were well understood, but the experience and insight into the many peculiarities of the business, as applied to meet the economic and social conditions of the laboring classes, were still to be learned.

Industrial insurance is the outgrowth of ages of experiments to provide, by an effective and certain method, for the financial needs of the mass of the population at the hour of misfortune. For, then it is, that expenses are very high. There is a sudden call for the slender savings, the result of years of abstinence; or else, the alternative of charity. Death is an ever-present contingency.

Industrial insurance is so called because it was designed to meet the needs of the laboring classes in the manufacturing districts. The system is sufficiently elastic to meet the needs and requirements of the various classes of workmen and laborers in general. Weekly payments are adapted to weekly wages. The development of industrial insurance was the result of the economic tendencies toward a higher degree of efficiency and security in social and economic institutions. The field of operation has been continually growing wider, as the age range has been widened. New territory has been taken into





the industrial field and the insurance has been continually growing less expensive in the matter of payments or else in increased benefits, when the experience of the companies has shown that this course was a safe and reliable one to pursue.

Industrial insurance occupies a distinct place in practical economics. There is a distinction between social and private wealth and "the result of material wealth depends upon causes far deeper and more profound than those that the statesman can control," said President Hadley. In insurance we have many billions of accumulated funds, as security for the faithful discharge of obligations and in addition a vast amount of economic security resulting from the successful elimination of a risk inherent in the uncertainty of life.

Industrial life insurance is social wealth. Security and the institution of private property are of supremem importance, to render possible the progress, --- social, moral, and economic, --- of the race. A vast amount of poverty is avoidable by systematic saving and insurance.

The place of life insurance in social economics is important. The accumulation of capital, the struggle of the masses for property and economic independence; the possibility of a more equitable and general distribution of wealth, says Mr. John F. Dryden, are all problems which rest fundamentally upon the power and habits of the people to save. But saving habits are difficult to acquire and savings bank funds are only about one-half the result of the saving of the poorer classes; the remainder of the deposits belong to the relatively well to do. Thus we see that industrial insurance serves both an economic and social purpose. Three things have been emphasized above all else in the ideals of industrial insurance, --- security, stability and permanency.



Industrial insurance is an institution exerting its influence and power in the direction of social betterment. For this reason the industrial insurance companies should co-operate with the various forms of charitable institutions in their common work of bettering the worker's condition. Their fields do not conflict in any way; in fact, each of them has a distinct work to perform. The charitable workers reach the very poor and destitute in our large cities. This is the distinct field of the charitably and philanthropically inclined. On the other hand, the industrial insurance company reaches the somewhat higher strata of the poorer classes; those that are able to "make ends meet." The industrial companies must of necessity operate among this class, because the extremely poor are unable to pay the premiums. Further, their mortality rates are much higher than are those of the better classes of workers, making them undesirable risks in this respect.

The conclusion that industrial insurance meets a real need and satisfies a real demand of the working classes for insurance finds strong support in the stupendous growth of the business. The system must meet an actual want for small insurances based upon the needs of these people and adapted to their requirements. The business originated among the working classes of England, where the business has since grown to a marvelous size and strength. Industrial insurance has grown in this manner due to the fact that it furnishes *family* insurance.

The real demand for industrial insurance was shown in another respect: in the widespread demand for children's insurance, especially in England, when the industrial insurance system was yet a new one. This was amply demonstrated by the Prudential agent's experience in regard to children's insurance, which later led to the adoption of this plan by the Prudential Company of London. Ever since its start, it has been one of the fundamental





branches of industrial business and has been one of the chief causes for the success of the business among the families of the working classes. Insurance for every member of the laborer's home is the desirable condition. This is true from the standpoint of the risk, eliminated by insurance, if for no other reason. Salesmanship might create a temporary demand for industrial insurance; it would, however, hardly be a permanent and growing demand such as in reality exists.

Industrial insurance has taught the doctrine of *self-help*. It is voluntary thrift. The laborer puts himself on a plane of relative economic security, of his own free will. No government or private individual has thrust this upon him. This is the chief difference between voluntary insurance and government compulsory insurance. Compulsory insurance, as we have said, is not insurance at all; it is merely a form of government liability and workmen's life compensation. Industrial insurance is a very powerful agent for the encouragement of saving and thrift. Communities where industrial insurance is the most widespread, are those communities where building and loan associations are not numerous; where the general working population are the most thrifty and in the best economic condition. Dayton, Ohio, is an example of a city where industrial insurance has a very strong foothold. It is also a city noted for the large number of Building and Loans Associations per capita of population; Philadelphia, Pennsylvania, is another striking example in this respect. Newark, New Jersey, has more industrial policies in force than there are people in the municipality and it is a city in which the conditions of the workmen and their habits of thrift are most encouraging.

One work that the industrial insurance company performs is that of educating the people to the true benefits of sound life insurance; often the





possession of an industrial policy leads to the later taking out of an ordinary policy. Of the ordinary insurance in force in the United States in 1910, 13.4 percent was with companies transacting industrial insurance.

From the 1914 Year Book ---

The amount of new ordinary business written by 247 life insurance companies in the United States in 1913 was \$ 2,654,731,695. The amount of ordinary business written by 22 industrial insurance companies in the United States for the same year was \$ 475,182,725. The percentage of total ordinary business written by industrial companies, compared with the total amount written was 17.782 percent.

Computed from the incomplete returns published in the Spectator for April 8, 1915, the percentage of total ordinary business written by fifteen industrial companies, compared with the total amount written by 227 companies was 19.0517 percent.

A large percentage of the ordinary business written by the industrial companies is written among the laboring class, -- an element of the population not reached by the ordinary insurance companies.

Another direct way in which the industrial insurance idea has directly benefited society has been the lessening of pauperism in our great cities. Its tendency is to encourage savings; more regular habits of living and greater care of one's self. Pauper burials in our large cities have been decreasing proportionately the last forty years. This is true even when many influences are working in the opposite direction. Immigration has been on the steady increase, and it is a very strong factor in the production of pauper burials. The problems of our slums are ever becoming increasingly difficult. With all this, Mr. Hoffman has submitted statistics showing the exact number of deaths per 10,000 population of pauper burials since 1870 for our large



American cities.

In 1870	--- 23.7 pauper burials per 10,000 pop.
Between 1831 and 1835	--- 17.4 pauper burials per 10,000 pop.
Between 1891 and 1895	--- 15.5 pauper burials per 10,000 pop.
Between 1897 and 1901	--- 11.8 pauper burials per 10,000 pop.
Between 1906 and 1910	--- 10.4 pauper burials per 10,000 pop.

This data shows a very desirable tendency in the economic and social conditions of the American people. Thus the relative number of pauper burials has been materially lessened in the last forty years. The poor have a very great abhorrence for a pauper burial. The primary function of industrial insurance is to provide against pauper burials, and to check the growing demands on public and private charity. The average cost of a pauper burial is \$ 7.00, so that the saving to American cities in 1903 alone was estimated to be over \$ 150,000 due in part to the effects of industrial insurance. This is only a fraction of the actual diminution of public burdens which insurance lessens in the American community of today. Large sums are returned to the policyholders yearly in the form of death claims. Very often a sum remains after the funeral expenses and doctor's bills are paid, for the family to make a start again. This was the primary intent and purpose of the new "weekly-income policy" designed to tide the family over the first "no-income" period and to be used in connection with the whole life policy; the two forms fitting together and forming a very desirable protection. Public sentiment at the present time seems more favorably disposed toward the work of industrial insurance companies than it has ever been in the past. And with public sentiment back of the enterprise, it is almost sure to succeed. In fact, industrial insurance is becoming an important element in the domestic economy





of the laboring classes.

The industrial insurance companies have carried on an extensive educational campaign in the forms of pamphlets and descriptive literature. The training in saving and habits of thrift that the payment of the weekly insurance premium gives to the young person and the advantages of having a preliminary training in the smaller insurances leading to the larger ordinary forms in later life is quite a desirable feature in the education of the child.

The leaflets of most importance which are issued by the companies and the educational work which they do of most importance socially, is the vigorous campaign against disease. Of course, it is to their direct financial advantage to prolong the lives of their risks; but the companies do an immense amount of good by sending out and spreading broadcast instructive, beneficial literature and advice about the correct sanitary conditions, which are so desirable. Further, these pamphlets instruct in the care to be taken with one's self against infectuous and contagious diseases. These are designed to raise the standards and ideals of the laboring classes and to reach far beyond the limits of the policyholders, themselves.

Professor Charles R. Henderson of the University of Chicago, in his book on "Industrial Insurance" discusses the extent and nature of the "Demand for a social policy of Industrial Insurance in the United States." He says that ---

- (1) The economic condition of the wage-earners calls for insurance as a necessary part of their protection against dependence and suffering. The great principle of distribution of risk among many is involved. Let society as a great whole take the individual's risk. A greater degree of equilibrium and safety and security is thus ac-



quired. Industrial insurance is not intended for defectives and paupers and to these it is entirely inapplicable. It is the class of people that are wage-earners and that still manage to "make ends meet" that are the industrial insurance policyholders, and not the defectives and delinquents who are the ones that are dependent on charity and public philanthropy. It does not prevent poor-houses or do away with the necessity of a public alms and beneficence but it does tend to lessen to a large extent the number of people who would find their way to these institutions were it not for the system of industrial insurance that comes to the rescue in the hour of greatest need.

In the average workingman's family there is a narrow margin of safety between income and subsistence. The average is perhaps little above the living wage; in the sense of a decent standard of living. A few weeks of sickness or incapacity and the meagre reserve is consumed. The statistics of charity fully justify this statement.

- (2) There is a marked tendency in all modern countries to form a group of families dependent on wages for their living, with all the resulting evils. Professional men and others in the higher strata of society find themselves after a certain number of years economically independent. Not so with the wage worker. The accumulation of a fund which will provide income in emergencies is a long and painful process and thus the only reliable process and method of providing surely and at the beginning of need for emergencies is *insurance*.

To the worker this means industrial insurance as he cannot afford the ordi-





nary forms.

The social and economic advantages of industrial insurance and its real value and utility to society has at times been seriously questioned by certain well-meaning writers, who have not been fully acquainted with the facts regarding the situation.

Reference is again made to Professor Henderson's book on "Industrial Insurance" in his discussion on industrial insurance as practiced by private insurance companies.

The main points of view and ideas that he brings out in that chapter are the following. These are cited because they represent accurately the main points of argument against the social and economic value of industrial insurance, as emphasized by the leading writers opposed to the system. Professor Henderson states in substance ---

The purpose of private insurance companies is *profit*. The business has grown to be of immense proportions in the last few years and the burden of this immense business is borne by the wage-earners, and by those especially whose wages are very low. The ratio of cost of administration to income in 1899 was almost 40 percent.

These statements of Professor Henderson are doubtless written with an honest belief that such was really the case. Most of the statements are not based on a knowledge of the true situation.

In the first place, industrial insurance companies are not in the business primarily for profits. Even if they were, the actual profits which the stockholders receive are so very small compared with the volume of the business that they are in truth almost negligible. In the two largest companies operating in the United States today, the capitalization of each is \$ 2,000,000. The stockholders of each are limited to seven percent on the





capital stock or only \$ 140,000 in each company. Five percent of this is made from investments; the remaining two percent only or \$ 40,000 is all that goes to the stockholders of each company out of the so-called and commonly supposed "immense profits" accruing from the business. He further states that the burden of this enormous business is borne by the wage-earners and he forgets to add that they also are the ones that receive the benefits of the business as well. The Prudential Insurance Company of Newark became a mutual company on January first of this year. The Metropolitan of New York is likewise taking steps for mutualization. The John Hancock of Boston has long been a mutual company. Thus we see, the profits of the business are clearly not very large. Besides, in the mutual form of organization, the whole profits and savings of the company accrue to the policyholders and to no one else. Further the expense rate has been decreasing steadily every year.

There is one very essential feature of industrial insurance that must not be overlooked in this connection and that is the fact that in industrial insurance, the policyholder pays for *convenience* as well as for *protection*. Large agency forces are necessary for the success of the business. The field force, of course, has two fundamental duties to perform,

- (1) Collect premiums on insurance,
- (2) Solicit new business.

It has been shown, in a previous chapter that a large amount of clerical work and office detail is necessary in the conducting a business like industrial insurance, where weekly, millions of transactions are carried on with policyholders scattered all over the United States and Canada. Then, too, industrial mortality is heavier than ordinary mortality.

Further, it may be said in reply to certain critics that industrial in-



insurance companies really do offer advantages to low-paid workmen. Insurance is an economic necessity to this class of people living continually up to their income. The public will not voluntarily insure their lives. It is a strange coincidence of human nature that the public will insure their property, in fact hunt up the offices of the fire underwriters that they may insure their homes and yet the public must be solicited to take life insurance and often the very best solicitors fail to get the applications. Thus we see, that it is because of this lethargy of the public mind in regard to the advantages and necessity of life insurance, that large agency forces are necessary. Life insurance without the agent has not been successful thus far, in the numerous attempts when it has been tried in England and the United States. It would probably be generally admitted, even by the critics of industrial insurance, themselves, that it assists in giving a greater degree of economic security to a family and that it further fosters thrifty habits, which are not insignificant advantages. We have seen that pauper burials have been reduced in numbers and that a rational system of education in regard to health and hygiene has been carried on in the large cities and industrial centers of the country.

But, says Professor Henderson, ---

Has not all this been purchased at too great a price? Is not a more economical system possible? Premiums are relatively high and benefits extremely low. Wage-earners get small returns for a large sacrifice. In 86 percent of the cases of claims paid, the sickness and burial expenses exceeded the amount of benefits paid. Private industrial insurance companies have found that sickness and accident insurance has not been practical. Therefore Professor Henderson concludes that private industrial insurance companies are restricted to a very limited field of industrial insurance; that they





render a necessary service at enormous and burdensome cost, and that this cost is so heavy as to hinder both savings and insurance of a desirable kind.

On the average the charge for regular industrial insurance is at least 75 percent higher than for ordinary insurance.\* "If the amounts collected for premiums from the regular industrial policyholders (\$ 364,059.61) could have been paid in annual payments and could have purchased insurance at the rates charged by the ordinary companies (\$40,250,277) would have been secured by the industrial policyholders instead of (\$ 23,000,130), the amount actually secured under the industrial plan. This represents an apparent loss in insurance protection to the industrial policyholders of (17,250,147) or, if it be measured in premium payments, an apparent loss of over \$ 370,000 upon premium payments of the year."

It is true that \$ 370,000 out of \$ 864,000 would be lost for protection; but Professor Henderson seems to forget the fact that this added amount is a payment for service rendered and accomodation received. The poor classes need insurance and this has been the only practical method thus far evolved of giving them what they need and what they want. He says that "these facts illustrate, that the smaller the earning power of a wage-earner, the smaller also is the purchasing power of each of his dollars."

This statement is further added that the chief causes of extravagant premiums to the poor are ---

- (a) The unfair part of the receipts from premiums and interest which is kept by the chief officers of the companies from the dividends of the insured.
- (b) The excessively high salaries of the officers of the administration.

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\*C. R. Henderson, "Industrial Insurance," Private Companies.



(c) The fees to agents for soliciting insurance under the weekly collection plan.

Professor Henderson states that the method of compensation to agents is by far the most important cause of *waste* of the contributions of low-paid workingmen.

This criticism, to say the least, is not valid in the light of the facts concerning agents' compensation. Let us take as an example, the rate of commissions of one of the largest industrial insurance companies in the United States today, as they are in force at this present moment. Industrial insurance commissions to agents in the Prudential are

15 times --- first year of service,  
 16 times --- second year of service,  
 17 times --- third year of service,  
 18 times --- fourth year of service,  
 19 times --- fifth year of service,  
 20 times --- after the fifth year of service.

What is meant by this table is that, when an agent writes a five cent industrial policy he is paid fifteen times five cents or seventy-five cents for writing it, during his first year of service with the company; sixteen times the second year, and so on. Agents as a rule are *underpaid*. This has even been admitted by leading insurance officers themselves. They do not receive a fair salary for the amount of ability and hard work, required in the daily conducting of their business. But the most important feature negating Professor Henderson's view is the fact that agents are paid on *increase* only. Thus for a very large amount of the business they write, they receive nothing, because it is counted a mere offset against lapses. Agents are required to cover all lapses with an equal amount of new business before they receive any





commission.

The statement is further made that "if we are ever to place the business of industrial insurance on a fair and economic basis, the agent must be dismissed."

Thus far no attempt at industrial life insurance without the agent has been a success. The most notable failure perhaps was the attempt of the British Government under the encouragement of Gladstone, to carry on an industrial insurance business through the post offices. There have also been many private attempts. In the United States, the Massachusetts savings bank plan provides for an insurance department in each savings bank. The scheme is practically a failure. The public does not respond as was hoped. Such being the case, the only practical method thus far evolved has been the one adopted and in use by the private industrial insurance companies. Perhaps the thing that is most to be desired is that the general insuring public and especially the insuring class of the workmen and families may be educated in the true and correct principles of insurance; its real benefits and advantages. It is in this direction that the future hope of improvement in the industrial insurance system lies. The industrial classes have the power to lower the present expense ratios, if they will. But this can only be done by the public voluntarily seeking its own insurance and then, voluntarily paying its premiums as they fall due.

Frederick L. Hoffman, in an address on "Industrial Insurance" at the Fifth International Congress of Actuaries at Berlin in 1906, said ---

"The social utility of industrial insurance has never been questioned by any one familiar with the conditions of life of the masses and a more or less adequate protection against possible contingencies, such as accident, death, sickness, and so on. Industrial insurance offers no panacea for the





social ills of mankind or the economic insecurity resulting from poverty, but it meets a specific need in a specific way and at a specific cost with absolute certainty and to this is due chiefly and primarily the success which stamps industrial insurance as the most provident institution in the world."

To my mind Mr. Hoffman struck the keynote of the whole situation. Industrial insurance is not perfect by any means, but it is one of the best forms of amelioration and protection for the working classes which has as yet been devised. When plans for sickness insurance; workmen's compensation and old age pensions become more secure and stable, we shall probably see clearer the influence of industrial insurance as a factor in the promotion of the welfare of the laboring classes.



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## CHAPTER VI

## CONTROVERSIAL POINTS OF INDUSTRIAL INSURANCE.

\* \* \*

There have been and there are now many points of controversy regarding the system of industrial insurance; its provisions, practices and experience. These have attracted much attention through legislative investigations and the claims of many misinformed persons. Attacks on the business have been of value to its ultimate success, because criticism must be satisfactorily answered before public sentiment can be turned in its favor.

Mr. Frederick L. Hoffman (in his report on "Industrial Insurance in the United States" at the Fifth International Congress of Actuaries in Berlin, 1906) gave a very comprehensive list of attacks on the business, concerning which there was no longer any disagreement. He included another list, the arguments of which are still effective and used by eminent writers on the subject. There is no longer any disagreement on the following points ---

- (1) Industrial insurance meets most effectively an important social need; the payment of a sum certain on the event of death to provide for funeral expenses and the costs of the last illness, or immediate financial needs.
- (2) Industrial insurance companies are of the most solvent and secure financial institutions. In the history of the business, no company transacting legal reserve business has failed or been a cause of loss or disappointment to the policyholders.
- (3) Industrial companies deal fairly and with a spirit of exceptional liberality. The policies are simple contracts and are easy to understand. Litigation is now very rare; every effort is made to



prevent lapses; and revivals are made easy. Claims are paid promptly and with dispatch, (of course the necessary precautions are taken against fraud and when this is done, the claim is paid as soon as it is physically possible to get a representative of the company upon the scene).

(4) Public burdens have been materially lessened and pauper burials have been considerably reduced in our large cities, by this method of family protection. General habits of thrift and saving are taught and much good is accomplished by the widespread system of educational literature on matters of health and hygiene, sent broadcast by the large companies. Premiums are deductions from the luxuries and not from the necessities of life.

(5) There is no proof that industrial life insurance is contrary to public welfare or is the cause of crime in any way. On the contrary it encourages the highest form of altruism and thrift and discourages vices of all sorts.

(6) It is the most effective and widely diffused education in safe and economical life insurance. The highest mission of industrial insurance is to spread the gospel of life insurance among the masses and make it a universal provident institution.

Even the most bitter opponents of the system of industrial insurance have acknowledged the truth and validity of those statements. It now remains to show the chief points of contention at the present time and to learn the truth regarding these contentions.

The chief points of controversy are at present ---

(1) That premium charges are too high. They compare unfavorably with ordinary and fraternal assessment rates and in return the bene-



fits are lower than would make the business conform to a reasonable standard of social efficiency.

- (2) The methods of management are neither economical nor adjusted to the needs of the policyholders, who are generally poor. The employment of agents is a needless expenditure; in fact more or less extravagant and increases unnecessarily the cost of insurance protection.
- (3) Lapses or voluntary surrenders are all out of proportion to the amount of new insurance written. The lapse rate is exceedingly large during the first three years. These lapses are due chiefly to over pressure and rapid growth; the resulting loss to policyholders is very great, even though small in individual cases.
- (4) Paid-up and cash surrender values are entirely too low. Three to five years is too long in which to begin giving surrender values. Lapses should never involve a total loss to policyholders aside from temporary protection. Surrender values should be in cash and paid-up should be given after a one year policy duration. Surrender values should be much larger and available much sooner than at present is the case.
- (5) Policyholders do not participate in the profits as much as they should. Dividends that are now voluntary should be made compulsory and paid annually instead of at longer periods; and they should be in cash.
- (6) The compensation of agents is too low in individual cases, while it is too large in the aggregate. Agents should not be responsible for lapses after a certain period. The total number of agents is too large. The majority of them have not sufficient business exper-





ience to secure the largest amount of new business at minimum expense.

- (7) The mortality rates of industrial insurance companies is higher than it should be, due to superficial and careless medical examinations.
- (8) Children's insurance has been the cause of murder in individual cases and serious and criminal neglect in others.
- (9) Industrial insurance could be transacted by the state upon a more economical and satisfactory basis than by private companies.
- (10) Government insurance or a state provision for workingmen and their families in the event of ---

- (1) sickness,
- (2) incapacity,
- (3) accident,
- (4) unemployment,
- (5) old age

would be a desirable substitute for the present methods of industrial insurance companies.

In answering these criticisms and objections, it may be said that many of them fall to pieces upon a careful study and accurate knowledge of the facts of the business. Facts are the important thing to consider. The business has developed on the basis of the contract. Its advantages and costs are fully understood by anyone having the most elementary conception of what life insurance really is. Lord Hobhouse from Mackay's "State and Charity" wrote ---

"If in any practical matter we lose sight of the maxim that we must offer to the people the thing they want and not the thing they do not want;



that the users of an article are in the long run (longer or shorter according to the simplicity of the article) the only available judges of its value, and that the exertions of mankind must be stimulated by their interest, we shall come to disaster."

Industrial insurance is family insurance particularly adapted to the conditions of the workingman and concentrated among the industrial population of our cities. The mortality of this class exclusively is much higher, as we have seen, than that of the general population. As we have indicated previously, the elements of age, sex, race, nativity and occupation of this part of the population are important factors in our problem of the mortality of industrial risks.

A consideration of the chief points of controversy will throw some light on the facts of the business in the matter of the practices and experience of the companies transacting industrial business in the United States at the present time.

It is said that premium charges are too high. That premiums are high is very true; but that premiums are too high does not follow. There are two elements that require to be taken into account.

(1) Insurance protection,

(2) Accomodation, (the collection of weekly premiums at the houses of the insured).

Premium charges are determined ---

(1) By the mortality of the class of risks accepted,

(2) By the experience of administration.

In comparing ordinary and industrial rates, *accomodation* must be considered. Industrial insurance is insurance at *retail*; ordinary insurance is insurance at *wholesale*. Industrial insurance is adapted to the needs and economic





necessities of the class of people to which it applies. In order to make insurance possible for these people, it must be in such a form that to the insurance protection is added the necessary modifications and conveniences which make the plan possible for the laboring classes. Even if no conveniences were necessary to be added, the rate would be higher than in ordinary forms because of the relatively higher mortality prevailing among the industrial classes. The cost of a commodity, of course, depends on the relation of supply and demand. Premiums should be paid promptly; often when the collector calls, the policyholder is not at home and the agent must call several times in the same week, all of which takes time and work. This means added expense. It is just as easy to collect a fifty cent premium as a five cent one and thus the lower premium policyholder gets the most accommodation relative to his money. Agents have thus far been found to be indispensable. Agents receive commissions on industrial business of at least fifteen times the face of the policy. An average sized debit includes about 1,200 policyholders, with say, four persons to a family, makes 300 calls weekly, at least, for the agent in the collecting of premiums alone.

Further, the superintendents, assistants, inspectors and medical examiners are paid for the legitimate services which they perform. The business is managed according to the principles of accommodation, involving the necessity of the collection of premiums from the houses of the insured.

Thus we see the real causes underlying the fact that industrial premiums are high. Premiums are scientifically adjusted and any practical means of reducing expenses would be adopted by the companies. The expenses of the industrial insurance company have often been attacked as extravagant and a form of needless waste. A fair treatment and consideration of the facts of the case is the best answer.



Every insurance premium as we before stated, may be divided into three parts ---

- (1) The mortality part,
- (2) The reserve part,
- (3) The expense part.

There may also be said to be a surplus part. The high cost of industrial insurance, that is the rate of benefits relative to the premium charged, is due to two factors, the mortality factor and the expense factor. The mortality factor is only a small one in its effect toward added cost compared with the expense factor. It is this expense factor that will demand our attention. Causes of this high expense ratio are ---

- (1) The necessity of having a large field force for collection and canvassing,
- (2) Commissions on new business that must be paid in order to place the business,
- (3) The necessity of supervision of the agents in the field and of keeping accounts with each of them at the home office,
- (4) Home office expense augmented by the large number of policies for small amounts, which are the expense of the business.
- (5) The cost of medical inspection and examination for the industrial policies. This expenditure is necessary and pays. It prevents adverse selections and fraud. The companies do not want extremely poor applicants because of the risks of lapsing; also because of the moral hazards, sanitation and other questions.
- (6) Death claims are prepared without charge and paid with promptness, very often by telegraph.

The many points of difference in the nature and operation of the business,





between industrial and ordinary insurance must be taken into consideration. It is then and then only, that the many so-called unnecessary and unwarranted expenses dissolve into urgent necessities. The average policy sum insured in ordinary business is about \$ 2,400 while the average amount in industrial is about \$ 140. The amount of clerical work is many times that of ordinary, or based on the relative amounts of the face of policies in the two forms, about eighteen to one. But we find that the expenses of ordinary and industrial insurance companies compare as two and one-fourth to one; a fact which makes industrial insurance appear as unusually cheap. Considering the return for the money expended in the two cases. The agency forces make tens of millions of calls annually where in ordinary insurance not a single call is made. The agents must canvass for new business, write applications and instruct the branch office to send the medical examiner to the applicant. Then the forms are returned; sent to the home office; inspected; passed and records are made of the insurance of the policy in all the various departments of the home office. The policy is then returned to the agency and recorded; the agent then delivers the policy to the applicant of the same. This detail is necessary simply for the issuance of a policy, besides all the other details connected with collections, claims, revivals, transferals and many other items which enter into daily office routine.

This is pronounced by some critics to be a "wicked waste." Scores of other ways and methods have been tried and have failed. Even the British government, in taking over the business of life insurance, found it necessary to adopt the methods of the private companies, in their conduct of the business. The cause of all this expense lies in human nature. People will voluntarily seek fire insurance protection of their property, but they must, in general, be solicited for that very essential form of protection to their





families and dependents, life insurance. The present system is the only practical one thus far evolved. Intelligent criticism is good. Fault-finding is easy; but it really difficult to improve. Insurance experts know most about the business and its needs and requirements. The industrial classes demand insurance. They must have it at *retail* as a retail price is all they can afford to pay.

The whole agency system has been attacked. It is said that it is unduly expensive and that if it could be dispensed with, a great saving would result. This is very true, but it *cannot be dispensed with*.

The English post office insurance experiment advocated by Gladstone, under the direction and auspices of the government has not thus far been a success. The rates charged by the government are no cheaper than those charged by the private companies. Various other schemes of no-agent insurance have largely turned out to be failures. Policyholders demand and are willing to pay for the services of collectors. This item is inseparable from the general expense column.

On the other hand, agents themselves are poorly paid. The companies hold them very closely in the matter of lapses, paying only commissions on increase. Part of their income is derived from writing ordinary business. The industrial agent is essential to the business; without him the plan has not thus far been able to exist.

The lapse question is a very generally misunderstood one among many critics, as has been cited above. The initial expenses of writing new business plus the cost of the medical examination are very heavy. Only one premium payment is required to be paid down. No other payments need to be made by the insured in order to take out an industrial policy. Thus it is very easy to lapse the policy and in fact very many do lapse their policies with-



in the first six weeks. There is a grace period in the payment of premiums of four weeks, during which time the policy continues in force, so that with the payment of only two weeks, six weeks of insurance protection may be secured. Every possible effort is made by the companies to reduce lapses, in the form of literature; instructions to agents and especially in the manner of payment of commissions to agents on *increase* only. Revivals are made exceptionally easy. There are no charges for re-instatement. Very often loans or liens on policies are given.

According to Mr. Hoffman ---

the industrial lapse rate is shown here for two of the largest American companies, for the years 1900-1904.

Metropolitan experience, ---

Issue of	First year	Second year	Third year	Fourth year	Fifth year
1900	34.34 %	18.64 %	5.37 %	3.03 %	2.36 %
1901	32.16	19.83	5.26	3.43	
1902	33.90	19.33	5.79		
1903	33.95	19.32			
1904	35.51				

Prudential experience, ---

Issue of	First year	Second year	Third year	Fourth year	Fifth year
1900	37.51 %	22.87 %	5.71 %	3.39 %	2.61 %
1901	40.92	19.69	5.07	3.79	
1902	37.25	18.81	5.95		
1903	35.17	19.33			
1904	35.43				

Lapses are not by any means a source of profits to the companies, but they are a distinct loss and it is for this reason that the companies do





everything in their power to reduce the lapse rate just as far as possible. The average initial cost in 1904 was \$ 2.07 per policy. The average time for which premiums were paid was 6.05 weeks for the first year's lapses. Due to the payment of large initial costs, there results a large loss to the companies due to lapses. The lapse question is of more importance to the company than it is to the policyholder. Everything that ingenuity has invented has been done by the companies in an endeavor to stop or at least lower the lapse rate.

In a consideration of the lapse question, the conditions of life must be taken into consideration. These are exceptional in the United States. The population includes many elements. A large percentage of these are foreign born. Life is not as fixed and settled in the United States, especially in the large cities, as it is in European countries. Removals and transfers are the cause of many lapses. There is a more or less shifting and unsettled condition among the industrial workers. The experience of the continental insurance companies shows a different result than that of the English and American companies. There is quite a considerable lapse rate, but there is not so large a lapse rate during the first thirteen weeks. It seems to be more evenly distributed over a greater length of time. Of course, the conditions of life, the methods of business and the radical characteristics account for the differences in the lapse rates in the various countries. One encouraging aspect of the situation is the fact that the revival rate is increasing; in

1895 --- 5.21 percent,

1900 ---11.14 percent,

1904 -- 16.03 percent. (From Hoffman).

The importance of the lapse rate will diminish as the companies grow older.



Infantile or children's industrial insurance is a subject that has aroused much public attention and much attempted legislative action. It seems that in past years, certain well-intending people, mainly charity workers and those interested in the question of philanthropy, social betterment and the uplift of the industrial classes, but who were clearly unacquainted with the facts of the case, have charged that children's insurance was the cause of child murder or infanticide in some cases and in many cases the cause of neglect and slow starvation, for the insurance money.

In the first place, during all the years of the business in this country, there has never been a single case proven of infanticide in the courts. Further, many state legislatures at various times have had the question brought before them by charity people with the request that that form of insurance be eliminated and forbidden in that state. After a thorough study of the case and upon acquaintance with the facts, legislatures turned down the proposition of insurance prohibition in that state. This was true, with but one exception; that state being Colorado. The action of the Colorado legislature was there due to lobbying, but the situation there was afterwards righted.

The insurance of children is a highly desirable form of industrial insurance. It promotes the idea of thrift and saving within the child's mind, which in later years leads to the taking out of larger insurances. The forms are so written that they may be converted readily into adult forms when the child arrives at the proper age. It is the last form of insurance to which public sentiment was brought to favor. It is now seen clearly that it is just as important to insure the child's life as it is any other member of the family, especially where the margin between income and subsistence is so very small, as it is in many families of the industrial classes.





Children's insurance is taken out by those laborers who take the best care of their children; who are the thrifty, careful and comparatively well-to-do of the working people. It is often said that the poor love their children more than the rich. However that may be, they are not indifferent about the welfare of their children and will sacrifice much for them. The original agitation against children's insurance started from a supposed case of infanticide in 1840 in England. This case was never proven. But from this the idea started and spread that children's insurance was harmful and contrary to principles of public welfare. Practical considerations point to the error in counting children's insurance with infanticide because of the fact that the benefits are never more than the actual funeral and attending expenses of the burial of the child. The benefits are limited by law, increasing as the child grows older.

So that the charges of child murder have never been sustained, and on the other hand public opinion has changed and now realizes fully the immense advantage to the industrial family of this form of protection.

Regarding the question of more liberal policy provisions, the policies now provide for paid-up policies, additional benefits, cash dividends after fifteen years, cash surrender values and other provisions. Paid-up policies are granted after three years and are computed on the same principles as those in ordinary insurance. Surrender values are as a rule necessarily low, because it takes several years before the deficit to the company due to initial expenses and the cost of placing the insurance, is made up, neglecting any accumulated reserve. Surrender values cannot be given if the reserve does not exist in the form of funds to the company, out of which those surrender values must be paid. The insured has the option of course of paid-up or extended insurance.





Medical examinations or inspections are conducted on all applicants for insurance, but not with the same thoroughness as in ordinary insurance. The examination is sufficient for the end in view, keeping out chronic diseases and physical and mental imperfections. For the lower amounts of industrial policies, as we have seen, the agent himself may conduct the inspection and for the higher amounts the medical examiner inspects the risks. The thoroughness of the examination increases with the increased amount of insurance applied for, very naturally. The remuneration is only twenty-five cents per examination but since a large number are made, it is a sufficient compensation. A certain selection of risks is made and that is all that is desired in this form of insurance. Applicants having tubercular trouble, chronic diseases, poor family history or having marked physical defects of any kind are rejected. Industrial insurance is designed for the industrial classes and too rigid examinations would entirely defeat the purpose of the insurance.

State insurance, or government owned and regulated insurance has been advocated very strongly from time to time by certain well-meaning reformers. This, of course, is usually classified under two parts, voluntary and compulsory.

Voluntary state insurance has been tried in England. Under the Gladstone plan, the British government entered the insurance field, as was stated before. The system was a failure. It did not come up to the expectations of Gladstone. He pronounced invectives against the private companies but was unable to devise a scheme that was equal to the private company scheme. The premiums were just as high as before, although the convenience and accommodation of the private companies was not offered by the government. Human nature was the prime factor defeating his plan. It did not meet the needs



and requirements of the industrial class. As the government plan has been decreasing in importance from year to year, so the private companies have been expanding and developing millions of policies annually. There have been various plans of government insurance, but this one had the most promising future. The characteristic ending and decline that all have taken is an illustration of the failure of the government plans. -

Compulsory insurance by the state is characteristic of the German plan. This scheme is unique in Germany, as it now embraces, accident, sickness, invalidity and old age insurance. There the insurance is nothing more than liability paid by the workingman in a compulsory manner. Its success has been fairly good, but not exceptionally good, because it has been found that when the employer is relieved of all responsibility to his employees, in the matter of accidents and sickness and exposure to his employees, by this plan of insurance, that the numbers of industrial accidents and carelessness on the part of the managements have increased very materially, (Hoffman; Congress of Actuaries, Berlin, 1906; Report on Industrial Insurance).

Compulsory insurance in reality is a method of employer's liability, poor relief and state charity under another name. When a person is forced to do a thing, it takes away a large part of the pleasure and satisfaction in the doing of it. All the advantages of self-help, of voluntary effort are removed. Evidence of the social and economic advantages and results of the German compulsory system are conflicting. But industrial insurance, as such, is meant to be a voluntary effort on the part of the individual toward a higher plane of economic independence.

Another very generally misunderstood point in regard to the experience of the industrial companies is in the matter of profits accruing to the business and to the companies as the result of their widespread operations.





The phenomenal success of the Prudential Company of London led people in general to believe that enormous returns could be expected from the business, in industrial investments in the United States. Since then many ventures have started in this country and failed. The original shareholders of the London Prudential lost all they had. People look at the forty percent cash dividends which that company is apparently declaring upon a capital which is largely the result of stock dividends, or the capitalization of surplus. Conditions are different in England and in the United States. Past and present periods are also different. Such a high rate of profits would not be countenanced in the United States. But taking the case of the Prudential of London, ---

- (1) The Prudential was well along in its career before it accumulated a reserve. Even now it is not subject to governmental requirements as in this country. Many failures are due to stringent reserve requirements in the first year of policy duration. The Prudential of London is now on three percent English Life Tables. If it had been on this basis at the beginning of its existence, it, too, would have failed. But stringent reserve laws are a very desirable thing.
- (2) The Prudential did not grant paid-up insurance until very much later than its start. This is what broke up the United States Industrial of Newark, (then the fourth largest company in the United States).
- (3) Prudential territory in the British Isles was very small; the population, dense; also it had no competitor; liberal features are against the success of new companies.
- (4) But the most important difference lies in the fact that the *freedom of contract*, both under law and under the influence of public



opinion is enormously greater on the other side of the Atlantic than on this. Enormous profits are allowed, sanctioned and approved there; not so here. Further, the ordinary business has been giving dividends at the expense of the industrial business in England. The two are kept entirely separate in this country.\*

From what source are profits derived? Clearly they are not from the excessive premiums charged; for, the reduction of one cent in each weekly premium on the policies of industrial insurance "would bankrupt the strongest industrial company in five years," (Haley Fiske, first vice-president of the Metropolitan Life Insurance Company). Profits, whatever they may be, come from the annual "turnover," the use of accumulation, the gains from excess interest received over the assumed rate, also, occasional gains from mortality and from some chance savings in the expense rate. American companies use tables based upon their own experience.

The Metropolitan charter allows only seven percent dividends to the stockholders. The same is true of the Prudential, (or was before its mutualization). A fair return is legitimate, but it must not be excessive. Surplus and accumulated funds go to the policyholders.

Professor Henderson and many other writers show their lack of knowledge of the facts of the case when they assert that the profits from the business are excessive and that the companies are operated solely for profit.

As a last and convincing evidence that the profits and returns from the industrial business are very far from being large, let us note the last act on the part of the administration of the Prudential. Since January 1, 1915, as was noted above, it has been a mutual company. It is now on a mutual bas-

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\*From a report on the "Profits of Industrial Insurance" by Haley Fiske, United States Review, Anniversary Number.



is, and it is understood that the policy of the company will not be materially changed as a result of this action. So liberal has the company been in the past, that the same policies will continue under the mutualized form of administration and organization. The Metropolitan Company is also taking steps to mutualize and will soon be on the same basis. The John Hancock Company of Boston has long been a mutual company. The tendencies and plans of the companies clearly point out the fallacy of the idea that excessive profits result from the transaction of this business.





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## CHAPTER VII.

## THE FUTURE OF INDUSTRIAL INSURANCE.

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Having traced the development of industrial insurance and treated its present status, we now inquire into its probable future. The future of any large business is likely to be estimated upon the basis of past records, practices and experiences. We shall, therefore, estimate the future of industrial insurance on this basis, assuming no radical change to take place in the social and economic condition of the laboring classes, and further, assuming that the same humanitarian impulses will guide the future directors that actuated the founders of the business. What then, is the probable future of industrial insurance? What may we expect with a reasonable degree of certainty, that the future policy of the business will be? Industrial insurance has a distinct work to perform for the industrial classes. It is supplying an important need of these people. Is it supplying this need in an economical and efficient manner? Is it a trusted servant of the people?

The companies have, from the very earliest, maintained a voluntary policy of liberality to their policyholders, in so far as liberality was in conformity with security and safety.

Consider the matter of policy provisions. The industrial policy has evolved from a form of rigid rules and provisions, narrow and confined in its allowances, high in its cost of protection, and relatively low in the amounts of benefits to its beneficiary in the case of the death of the policyholder. It has evolved from this form, to one of broad and liberal provisions, more expensive to be sure than the ordinary policy of the same size





in actual amounts of premiums but perhaps less expensive than the ordinary policy, when the convenience and accomodation given, are considered. In commercial phraeology the industrial policyholder is in the present evolved form of his policy, "getting his full money's worth." Especially is this true when the industrial policy is compared with the ordinary policy. How is this possible? It is due primarily to the fact that industrial insurance is a large scale enterprise. Millions of operations of all kinds are transacted weekly by experts in their lines. System, efficiency and a high degree of co-operative division of labor is found in an industrial insurance home office of a large company. We have all the savings accruing from transacting a business on a large scale, and the liberal policy of the companies, gives the policyholder all the advantages of this. Yet the companies are continually striving to lower expenses and are succeeding in this gradually and surely from year to year.

During the past years the companies have had a continual record of granting some increased liberality in the matter of policy provisions or the reduction of rates or increased benefits in some form or other. As they grew in size and strength and past experience taught them that this step could be safely taken. The Metropolitan and Prudential Companies have led the way in this respect, being the pioneers in the business and at the same time by far the largest companies in the business in the United States. They early granted the option of settlement by paid-up insurance. Very lenient provisions for re-instatement were granted to policyholders who were forced to drop their insurance because of the hard times in 1893. Later the immediate benefits on all policies were increased and cash surrender values were granted. Certain restrictions in the disease clause were removed; all payments were made to cease at age 75 on the life policies. More liberal



concessions were granted to re-instate lapsed business. Voluntary dividends were granted. Then the lien clause was inserted in the industrial policy; infantile rates were lowered in reality by increasing the benefits on this form of policy. These provisions and increased liberalities were, when adopted, made retro-active on policies then in force. Until now as the latest step toward liberality, the Prudential has mutualized and the Metropolitan has already taken steps along the same line. This means compulsory dividends, if any surplus accrues whatsoever from the business, because all surplus funds that may accrue in the business or any savings that may be made, are necessarily returned to the policyholders in the form of dividends. This is the meaning of a mutual company. The policyholders comprise the company and any profits accruing are their profits.

The industrial insurance business has been developed on the basis of the contract. This contract is at once so simple and clear in its provisions that it is readily understood.

The early mortality tables were of a somewhat doubtful nature in the calculation of premium rates, but the prevailing high death rates suggested extreme caution, and higher charges than subsequent experience proved necessary. In the course of time benefits were increased and all the changes were made retro-active.

As a result of this policy of liberality and sound business, vast sums have been paid to policyholders in the form of voluntary financial concessions. These concessions have been an integral part of the business, liberalizing practically every policy feature. The companies as a result have gained the confidence of the wage-earners, who, to an ever increasing extent, are converting the system of industrial insurance into a more nearly universal provident institution.





What has been done in the past in the matter of liberalizing features in policies will probably be continued in the future on a still greater scale, as a result of vast experience of the companies accumulated in the past years. When the insistent efforts of agents to canvass new business are no longer required to the extent and under the trying conditions common to the business in the past, still more can be accomplished.

Industrial insurance companies have especially made significant progress in several important directions.

- (1) The expense rate has been gradually diminished,
  - (2) There has been a corresponding decrease in the lapse rate,
  - (3) There has also been an improvement in the revival rate.
- (1) There has been a reduction of the *expense* rate. There has been a gradual but steady reduction of the expenses of the companies in proportion to the volume of business transacted. There is a high degree of probability that this will continue in the future, as it has done in the past. We have the economics of large scale enterprises combined with the results of experience. The ratio of expenses was reduced from\*

47.1 percent of the total income in 1900  
to 43.2 percent of the total income in 1905  
to 38.3 percent of the total income in 1910.

These results are for both the Metropolitan and the Prudential companies. A slight reduction of the expense rate saves large sums of money, which revert to the benefits of policyholders, heretofore largely in the form of voluntary concessions and in the future it will be in the form of compulsory or rather necessary financial con-

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\*According to Hoffman.





cessions.

(2) There has been a reduction of the *lapse* rate. There is also a very important tendency toward improvement in this direction as indicated previously. A considerable number and proportion of lapses do not represent a financial loss to the insured in any way, while on the other hand, it is a serious source of loss to the companies. A considerable amount of industrial business is written but never paid for. These cases are all reported and so raise the lapse rate above what the actual rate really is. This is very misleading to the critic who merely glances at the figures and without examining into the causes underlying them, prematurely denounces the results on general principles. The four weeks grace period also materially favors the insured. But due to the persistent efforts on the part of the companies, the lapse rate is gradually but surely being lowered and has every likelihood of continuing so in the future.

(3) There has also been an improvement in the *revival* rate. There has been a gradual increase in this rate during the last decade. This is due again, to the continuous efforts of the companies, teaching and showing the immense advantages of keeping the policy continually in force. Nothing is ever gained by lapsing, to either party, either the insured or the company, except in unusual cases. There has been a lesser amount of unstable business issued and also a corresponding saving in business lapsed but re-instated. Revivals and settlements are made, of course, without any expense whatsoever to the insured. In 1910, 20.9 percent of lapsed policies were revived. Companies urge revivals just as strongly as possible. They instruct the field force to exert their best efforts toward improv-



ing the revival rate. Also in certain cases liens are permitted on the policies in order to aid revivals. Conditions for re-instatement are exceptionally liberal.

Every improvement widens the scope of usefulness of industrial insurance to society; while the chief aim has been to reduce the cost of insurance, it will probably be possible in the future to add new features to the contracts. Companies cannot safely conduct doubtful experiments. On the other hand, policyholders should not be led to believe that companies can do so very much more than the contract provides for, since it is the unconditional fulfillment of contractual obligations on which the companies rest their chief claim for public confidence. Public faith is necessary in the security of the industrial policy. The spirit of the age is suggestive of a decided broadening of the insurance function.

Industrial companies, in their general work of supplying insurance to meet the needs of all classes of industrial workers, claim, that by the issuing of intermediate policies, they have added in an important way to the system of industrial insurance. The industrial companies now offer insurance to the laboring classes in all gradations from weekly adult and infantile industrial insurance to intermediate and ordinary forms, payable on the quarterly, semi-annually and yearly basis. Thus, we have insurance for every age, station, and financial condition. The future holds in store, improvements in all these forms of insurance, both in the matter of provisions and rates.

Industrial insurance will gradually become more widely distributed and of still greater social and economic value. Greater campaigns for social betterment, education and general welfare will follow. The business rests on a solid foundation of science and finance in one hand, and on public needs





on the other. Wonderful progress has been made and will probably continue to be made in the future to an even greater extent. The details of office and field administration will be still further perfected.

The probable future of the business of industrial insurance cannot, perhaps, be better summarized, than to quote the following words.

"The future is full of promise for the ultimate development of industrial insurance as a universal thrift function in the life of the people and the record of the companies during the past is evidence that improvements have been introduced whenever the accumulated experience warranted a further step in advance. Just as it is a recognized law of evolution that 'no social institution commences its existence in a form like that which it eventually assumes' and that 'in most cases the unlikeness is so great that kinship between the first and last appears incredible' so industrial insurance in years to come is certain to develop into an agency of still greater usefulness and assume more and more the character of a vast social institution through which most of the uncertainties of life will be effectually provided for."\*

"The future of industrial insurance will be more and more the conscientious effort of managements to improve industrial conditions and to utilize great multitudes who are gathered in separate companies to organize work of social uplift and betterment. It will not be a mere matter of dollars and cents beyond prudence of management. It will be the result of broad views of man's responsibility to his fellows."†

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\*Mr. J. F. Dryden, former president of the Prudential Insurance Company of America.

†Mr. Haley Fiske, Vice-president of the Metropolitan Insurance Company.



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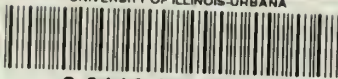








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